



Testimony of
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**"The International Fund for Agricultural
Development (IFAD) and the Importance of
Agricultural Development in Sustainable
Global Poverty Reduction."**

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Domestic and International Monetary Policy, Trade and
Technology*

Madam Chair and members of the committee, I would like to thank you for this opportunity to speak about the work of the International Fund for Agricultural Development, my own organization, Bread for the World, and the importance of rural development and agriculture to the fight against hunger and poverty. I hope we will all keep the 852 million people who go hungry every day in our minds as we have this discussion today in Washington.

Bread for the World counts itself as one of the longest-standing and most ardent of IFAD's supporters in the U.S. Bread for the World's 56,000 members lobby Congress and the administration to bring about public policy changes that address the root causes of hunger and poverty in the United States and overseas. Founded in 1974, Bread for the World is a nonpartisan organization supported by 45 denominations and over 2500 churches. We mobilize a quarter of a million constituent contacts with members of the U.S. Congress every year. Bread for the World helps concerned people learn about policy issues that are important to poor and hungry people, and then helps them turn this knowledge into positive political action.

The world food crisis of the 1970's and the subsequent convening of the first World Food Conference were the impetus to the founding both of Bread for the World and the International Fund for Agricultural Development. In response to severe and simultaneous famines in Africa and Asia, world leaders agreed that much more needed to be done to address the structural problems that resulted in persistent hunger and malnutrition. They established IFAD, with a mandate "to combat hunger and rural poverty in developing countries, especially low-income, food-deficit countries, and to improve the livelihoods of poor rural people on a sustainable basis."

Bread for the World has official observer status on IFAD's Governing Council. Over the years, Bread for the World has followed IFAD's activities closely, collaborated with it in policy dialogue and outreach, and advocated for strong and active U.S. participation and funding for its operations. Among international financial institutions, IFAD is singularly focused on initiatives that reach poor grassroots communities in rural areas. IFAD accomplishes its mission by working in partnership with governments, donors, and NGOs. It provides highly concessional loans for agricultural and rural development projects within low-income countries and grants to NGOs and agricultural research institutions experimenting with innovative approaches to rural poverty alleviation. Since its establishment in 1976, IFAD has financed 707 projects reaching almost 300 million rural people for a total commitment of approximately \$9.0 billion in loans and grants.

IFAD's resources come from replenishments to its core resources originating from voluntary contributions of IFAD Member States (which are negotiated approximately every three years), and from loan repayments and investment income. There have been a total of seven replenishments to date. A

distinguishing characteristic of these processes relative to the funding of other international financial institutions is that the developing countries share a substantial burden in supporting IFAD financially. The U.S. is the largest single contributor to IFAD, contributing 7.5% of the overall target level in the most recent replenishment. We are grateful to this Subcommittee and to the U.S. Government for providing leadership in this initiative over the past two decades.

The story of the financial resources is only a piece of IFAD's contribution. Over the past 30 years, IFAD has been an exemplary model for leveraging other international partners leading to a further \$16 billion in financing. For every dollar invested, it has mobilized nearly two additional dollars from developing countries or other donors. As the U.S. seeks to transform its own development programs with greater efficiency and accountability, these reforms should amplify the lessons from successful models such as IFAD.

One of the most important reasons that Bread for the World so steadfastly supports IFAD is its commitment to the empowerment of rural poor people. Bread for the World's very existence is based on the recognition that power is both part of the problem and part of the solution to hunger and poverty, in this country and around the world. Both IFAD and Bread for the World believe that unless the poor have a greater say in decisions that affect their lives, international efforts to assist and enable the poor to overcome poverty will be hampered.

We share IFAD's conviction that aid must target rural and agricultural development and build the capacity of rural communities. Why?

First, effective poverty-fighting resources must go where the poor are. Extreme poverty remains a daily reality for more than 1 billion people who subsist on less than a \$1 a day. 75% of the world's poor live in rural areas. Most of them make their living as farmers or farm workers. If we want our resources to reach the world's poorest people, then those resources must target the rural areas where three-fourths of them live and work.

Second, aid resources should target the things that the poor do to earn money. The rural poor are often smallscale farmers, farm workers, herders, or fishers. Even rural entrepreneurs rely on customers whose income hinges on agriculture. In short, the majority of the men, women and children who comprise the rural poor depend -- directly or indirectly -- on agriculture for their livelihoods.

Third, agriculture and rural development are the keys to the economic growth needed to sustain poverty reduction. For developing countries without substantial mineral or oil wealth, agriculture is often the basis of the economy. The World Trade Organization reports that agriculture accounts for one-third of the export earnings of nearly 50 developing countries. Further, WTO reports that

almost 40 of them depended on agriculture for over half of export earnings between 1998 and 2000.

Fourth, productivity increases in agriculture can generate results. The World Bank estimates that a mere 10% increase in crop yields would reduce the proportion of people living on less than a dollar a day by between 6 to 12%. For African countries, a 10% increase in yields could reduce the percentage of the extreme poor by nearly 10%.

Balancing Productive and Social Investments, and Rural and Urban Needs

This is not to say that agriculture and rural development are all that is needed. Other sectors, including the social sectors, are also important to development and progress against poverty. But only 8% of the world's official development assistance now goes to agriculture. Think about that: only 8% of international aid goes to the economic activity upon which 75% of the poor depend for their livelihoods.

USAID has demonstrated an increasing interest in agriculture, although earmarks for other things have hampered USAID in this effort. The Millennium Challenge Account is also providing some funding for agriculture and rural development in most of its early compacts. The MCA has picked exemplary, democratic governments among the world's poorest countries and asked them to identify their own priorities. It is striking that most of these governments have asked for MCA funding for agriculture and rural development. But despite these positive shifts in USAID and the MCA, and despite a substantial increase in total U.S. funding for development assistance, total U.S. funding for agricultural development has not increased at all in recent years.

The International Fund for Agricultural Development

The International Fund for Agricultural Development is one valuable conduit through which the U.S. and other donors can direct appropriate levels of resources to rural and agricultural development.

IFAD is the only international financial institution that focuses exclusively on reducing poverty and achieving household food security in rural areas. IFAD supports community-based projects that increase the productivity and incomes of the rural poor, stimulate broad-based economic growth through rural development, and create the conditions in which rural women and men can take the lead in overcoming poverty.

Through contributions to IFAD, we target aid resources directly to the rural areas where they are most needed. These resources support community-based and effective strategies that not only increase economic opportunities for the rural poor, but also build their capacity to seize the opportunities.

IFAD has been a major catalyst in bringing private banking financial services to poor rural communities. IFAD has brought together banks like Citigroup with major microcredit organizations such as ACCION and FINCA. As a result FINCA affiliates have significantly lowered the cost of loans and dramatically increased their earnings.

Indeed, IFAD gives priority focus to strengthening the capacity of the rural poor and of their organizations – such as farmer cooperatives, traditional village work groups, or self-help groups organized around microfinance. At the same time, IFAD also works to strengthen the capacity of local and national governments to respond to the rural poor and their needs. In this way, IFAD goes beyond increasing the capacity of the poor to generate incomes. It also develops their ability to engage in their governments effectively, and to weigh in on the issues that shape their lives and opportunities.

Most importantly, IFAD's projects get results.

Many of IFAD's projects focus on creating access for poor farmers to the assets, knowledge, and technology that they need to improve their production. In Honduras, for example, IFAD fostered the development of producer cooperatives in the economically depressed western region of the country. In an area where access to technical assistance by poor farmers has been limited, the cooperatives were able to finance assistance through the earnings generated by the organizations' credit and marketing activities. The project reached twice as many producers as planned, in part because of a low-cost approach that relied on innovative producers from local communities to disseminate new technologies and production systems.

In Ethiopia, IFAD is supporting improvements to and expansion of traditional, small-scale irrigation schemes in drought-prone regions. The innovation in IFAD's approach involves the inclusion of additional activities that are needed to sustain the improved irrigation schemes, such as seed production, extension, social organization, and market linkages, as well as soil conservation activities and women's gardening programs in areas outside of the immediate irrigation zone. The project has led to initial increases in production and income, and improved nutrition and benefits to women who are growing vegetable gardens. Farmers in the improved irrigation areas are growing a greater variety of crops.

Nearly three-quarters of IFAD's projects include a microfinance component, reflecting the critical role that access to finance plays in enabling poor people to overcome poverty. In the Philippines, IFAD has helped to build financial systems that reach underserved poor rural communities. This has promoted widespread replication of the approach pioneered by the Grameen Bank in Bangladesh (group lending without collateral, with repayment of loans in weekly installments). Working with the government, NGOs, cooperatives, and local

banks to create lending channels, IFAD helped to strengthen the capacity of more than 160 microfinance institutions to reach the rural poor, most particularly women, who comprised ninety-eight percent of the microfinance clients. An Asian Development Bank (ADB) assessment determined that the project has resulted in a twenty-eight percent increase in incomes and increased expenditures on food and schooling. Ninety-five percent of the project beneficiaries reported increased self-confidence with respect to conducting business.

Over the years, Bread for the World staff have monitored IFAD's policies and visited IFAD projects in a number of countries. We respectfully submit the following recommendations regarding IFAD and agriculture and rural development among poor people around the world.

First, the U.S. should continue to support IFAD's efforts to integrate stakeholders into decision-making processes and to be flexible in its policy prescriptions. Including communities in decisions helps to make programs responsive to local needs and sustainable after IFAD concludes its involvement. IFAD does not rely on any single model for its projects and recognizes that country contexts may require different development approaches. IFAD does not limit its projects to agriculture, but instead flexibly responds to the various development needs of poor rural people. Grassroots participation and flexibility have been hallmarks of the capable leadership of IFAD's president, Lennart Båge. These principles have worked for IFAD and should be adopted by the other assistance programs that the U.S. supports.

Second, the U.S. should continue to increase funding for poverty-focused development assistance and, specifically, for agriculture and rural development. U.S. funding for the agencies and programs that Bread for the World counts as poverty-focused development assistance has grown from \$4 billion in FY 1999 to \$10.6 billion in FY 2006 – which is profoundly encouraging. But this growth should have included rapid growth in funding for agriculture and rural development, and that has not happened. IFAD deserves increased U.S. funding.

Third, agricultural trade should be promoted. Agricultural protectionism in the industrialized countries stymies agriculture in developing countries. The current system of farm subsidies also fails to address the needs of small-scale farmers and other struggling families in rural America. Rescuing the Doha negotiations would be good for America – and would also give a powerful boost to the incomes of poor rural people in developing countries. Even without a Doha deal, next year's Farm Bill should shift resources from trade-distorting subsidies to other investments in farm and rural development.

Madame Chair, most global poverty is rural poverty. Rural poverty is rooted in the limited resources that poor people have to meet their income and food security

challenges. The most acute poverty is among women and minority groups who are subject to specific and discriminatory mechanisms of exclusion. Overcoming global poverty will require intensified effort to solve these very clear problems.

IFAD's success is related to its resolute focus on the livelihoods of the rural poor. Bread for the World will continue its advocacy focus on poverty and, specifically, on behalf of IFAD. I hope this subcommittee will actively support IFAD's work against rural poverty.

Thank you for the opportunity to testify before you today, and I would be happy to take any questions.

DAVID BECKMANN

David Beckmann is president of Bread for the World, Bread for the World Institute, and the Alliance to End Hunger.

Bread for the World is a citizens' movement that lobbies the U.S. Congress and President to do their part to end hunger in the United States and around the world. Bread for the World has a 32-year record of legislative successes. Bread for the World Institute does research and education on hunger.

The Institute organized the Alliance to End Hunger. Bread for the World is a broadly interdenominational Christian organization, but the Alliance reaches out to a more diverse array of institutions – Jewish, Muslim and secular organizations, corporations, unions and farmer associations. The U.S. Department of Agriculture and the U.N. Food and Agriculture Organization participate as observers.

Beckmann is a Lutheran pastor and also an economist. He worked on poverty issues at the World Bank for 15 years before moving to Bread for the World in 1991. He earned degrees from Yale, Christ Seminary, and the London School of Economics and has also been awarded five honorary doctorates.