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Enabling poor rural people
to overcome poverty

Management response to the Annual Report on Results and Impact of IFAD Operations evaluated in 2010

Note to Executive Board representatives

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Abbreviations and acronyms

ARRI	Annual Report on Results and Impact
CPM	country programme manager
IFI	international financial institution
IOE	Independent Office of Evaluation of IFAD
PCR	project completion report
PCRv	project completion report validation
PPA	project performance assessment
RMF	Results Measurement Framework

Management response to the Annual Report on Results and Impact of IFAD Operations evaluated in 2010

I. Introduction

1. This document presents Management's written response to the Annual Report on Results and Impact (ARRI) of IFAD Operations evaluated in 2010, in line with the decisions taken by the Executive Board in September 2004 and reiterated in the Revised Evaluation Policy (EB/2011/102/R.7/Rev.1, para. 54).

II. Methodological improvements

2. Management would like to thank the Independent Office of Evaluation of IFAD (IOE) for including project completion reports (PCRs) in the ARRI sample for the first time this year, following the respective project completion review validations (PCRVs) and project performance assessments (PPAs). This has significantly increased the sample size on which the ARRI is based and consequently enhanced the robustness and reliability of ARRI data. It is also important to ensure, however, that only those evaluations on which an agreement at completion point (ACP) has been reached or a Management response has been received are included in future ARRIs.¹
3. The foregoing addresses the concern Management had expressed in the past that trend analyses using data exclusively from the independent evaluations contained in ARRI are not reliable, given the small and non-random nature of the sample used.² This also responds fully to the recommendations of the Peer Review Panel that IOE should rely more on validated PCRs in reporting evaluation findings.
4. In terms of the reliability of the sample of projects evaluated each year, it is relevant to mention here that the "noise in the annual data results in year-to-year variation not representative of any particular trend. Three-year averages [give] a more complete picture".³ IFAD's self-evaluation systems, having reached the same conclusion, have been using multi-year averages, for example, in setting the baseline and targets for the Results Measurement Framework for 2010-2012. This methodological improvement was introduced in the ARRI for 2009 (para. 14) and was welcomed by IFAD Management (EB 2010/101/R.10/Add.1).
5. The two above-mentioned methodological improvements are now firmly in place, and the ratings assigned by IOE and Management's self-evaluations for the same cohort of projects can be compared directly through the PCR/PPA process. Accordingly, Management believes that measurements of the performance of IFAD-supported projects and programmes at the outcome level have become more reliable.

III. Evaluation findings

A. PCR document quality and disconnect

6. Management would like to thank IOE for identifying and reporting on the systemic issues and lessons emerging from PCRVs, and to make the following comments.
7. In response to IOE comments that there is variability in PCR quality, Management will work towards more standardized and homogeneous PCRs. However, this will be contingent upon the capacity and requirements of Member States, since the project completion process is led by them and PCRs essentially remain the product of the borrowing member countries (General Conditions for Agricultural Development

¹ For example, this year's ARRI includes the CPEs for Yemen and Viet Nam, for which ACPs have yet to be finalized.

² IFAD Management's Response to the Annual Report on Results and Impact of IFAD Operations evaluated in 2006 (EB 2007/92/R.7/Add.1, paragraphs 2 and 3).

³ As noted in the findings of the World Bank's Independent Evaluation Group (World Bank, Annual Review of Development Effectiveness, 2009).

Financing, article 8.04). IFAD can and will influence the PCR process, but control is in the hands of governments. Equally importantly, IFAD's current operating model accords top priority to country ownership of the development process and to building national capacity, including for evaluations. We will therefore focus more on helping to build government capacity to undertake PCRs, rather than taking over the process ourselves.

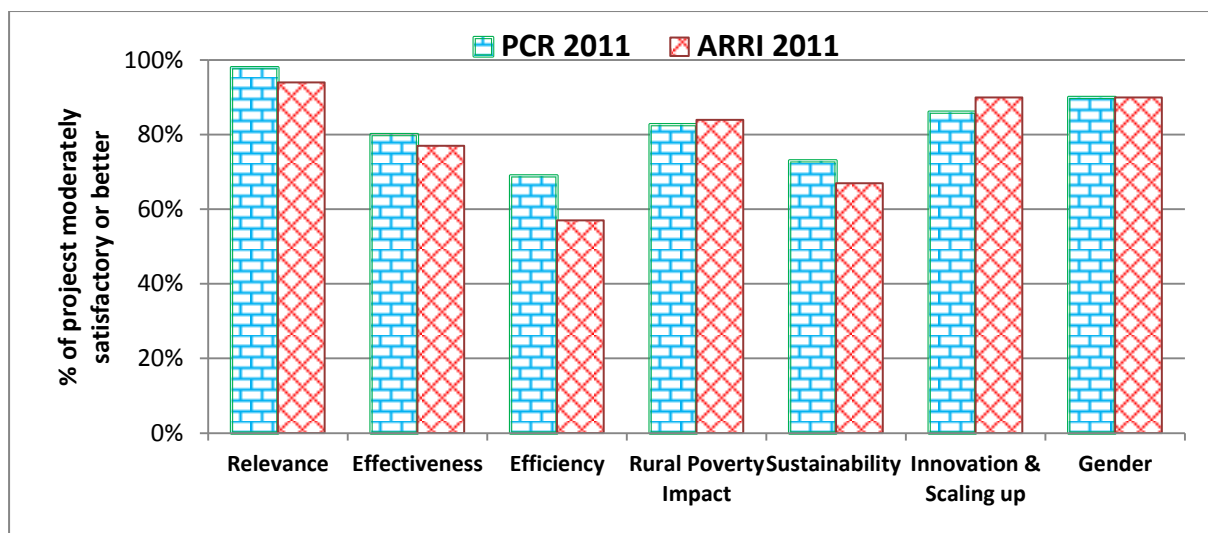
8. The Programme Management Department (PMD) has a prescribed a timeline and guidelines for preparing PCRs. Over time the submission rate of PCRs has increased and IFAD currently has one of highest, if not the highest, PCR submission rate among international financial institutions (IFIs) – despite the fact that IFAD's PCR process gives Management much less influence than is the case at other IFIs. As IFAD's global portfolio of projects has to be managed flexibly in order to achieve better overall impact, project implementation periods are extended on a selective basis. This affects PCR submission dates. At the aggregate level, a sufficiently large number of PCRs are received and analysed every year for robust results reporting. PMD has also adjusted its review cycle, with consequent changes in the way ratings are finalized, to cater to the needs of IOE.
9. The quality of project-level monitoring and evaluation (M&E), though improving, remains relatively weak, as noted in most ex post project evaluations. The PCR process alone obviously cannot bring about any radical change in the quality of M&E. Weak M&E will continue to affect the quality of PCRs and of evaluations generally.
10. With the realization that there is a clear need to further enhance the quality and rigour of PCRs,⁴ Management has undertaken to allocate more resources to the PCR process and made a commitment to make PCRs more widely available to enhance knowledge sharing.⁵ These measures should address some of the suggestions made by IOE in the 2010 ARRI.

B. Comparative performance of the projects evaluated and reviewed

11. With respect to the disconnect between PCR ratings and IOE ratings for projects, IFAD Management has noted with satisfaction the finding of ARRI 2010 that "the overall average disconnect [between the PCRs and PCRV) was only -0.2, which indicates that the ratings in PCRs and PCRVs, after all, are not too far apart." As the PCRV process is new and reflection is needed on the mechanics and rigour of this new instrument, Management recreated the data set used in the 2010 ARRI so that the data could be reclassified by type of evaluation. This analysis confirmed the low level of disconnect in ratings reported by IOE for 14 projects. The minimal difference in the overall rating noted by ARRI is largely attributable to the new PCRV/PPA process. Indicatively, this may show an added rigour in ratings in PCRVs/PPAs, when compared to other instruments of evaluation.
12. A low level of disconnect between independent and self-evaluation is also supported by a broader sample of 40 projects rated and included in ARRI 2010, and 50 projects rated by Management and included in this year's Report on Development Effectiveness. This is presented in the following chart.

⁴ IFAD, Action plan for strengthening the self-evaluation system (EB 2011/103/R.6), para. 34.

⁵ Ibid, paras. 39 and 43.



13. As can be seen from the chart, the proportion of projects with moderately satisfactory or better ratings is identical in terms of gender. For rural poverty impact and innovation and scaling up, IOE ratings are slightly higher than those of Management, whereas Management ratings are slightly higher than those of IOE in the areas of relevance, effectiveness and sustainability. Economic efficiency, however, is an area where disconnect is relatively high. PCRs show generally higher efficiency than do IOE reports. However, the PCR review also shows the economic efficiency of projects as the weakest area.

C. Performance of IFAD programmes and projects

14. Management agrees with the ARRI's conclusion that the performance of IFAD—supported projects continues to be strong in terms of relevance, effectiveness, rural poverty impact, innovation and women's empowerment (para. 141). Significant improvements in IFAD's performance as a partner are also noted (para. 141). Furthermore, Management agrees with the comments included in the ARRI that despite improvements in recent years, performance in three areas – efficiency of IFAD-financed projects, natural resource management, and environment and sustainability – remains weakest. Management also agrees with the conclusion that "... there have been improvements since 2006 in non-lending activities, namely policy dialogue, partnership building and knowledge management" (para. 144).
15. Management appreciates IOE's efforts in benchmarking IFAD's performance to that of other IFIs, which while being "inherently difficult" (ARRI, para. 74) has significant learning potential. It is noted that "the performance of IFAD-supported projects is somewhat better than the operations funded by AsDB, the World Bank in the Near East, North Africa and Europe region, and the African Development Bank." (para. 76).

D. Comments on some specific findings

16. The lack of any improvement in economic efficiency of the projects as reported in this year's ARRI (para. 25) and a relatively high disconnect between ARRI and PCR findings may be attributable to context. As IFAD projects are usually located in remote and disadvantaged areas and often serve marginalized communities, economic costs in absolute terms to achieve benefits tend to be high – thus the economic rate of return of IFAD-funded projects may not be directly comparable with projects funded by other institutions in less disadvantaged areas. As poverty and gender impact (through acceptable level of development effectiveness) and sustainability continue to be IFAD priorities, the trade-off between these factors and economic efficiency will continue to be applied as relevant factors in assessing project efficiency in PCR reviews. Focusing excessively on efficiency could jeopardize IFAD's mandate, in particular targeting objectives, by inducing staff to

focus on easily reachable and high potential areas and communities. IOE does not recognize these trade-offs in its analysis.

17. In interpreting the data on efficiency, it is also important to note that it is not adequately and consistently measured. This is due in part to limitations in data available and in part to the challenges presented by quantifying non-physical results (e.g. social capital, empowerment of rural poor people, etc.), which often are significant outcomes of IFAD-funded projects.
18. On balance, as noted in this year's Report on IFAD's Development Effectiveness (RIDE), "Economic efficiency of the projects, although improving, remains weak in relative terms." (annex 1, para. 57), and needs significant further improvement. In proposing the Results Measurement Framework for the Ninth Replenishment period (2013-2015), Management has accorded high priority to improving project efficiency, and aims at achieving better results "in part through increased focus on economic efficiency of projects, and in part through an expanded scaling-up agenda to achieve economies of scale (more output per unit input)".⁶ However, Management will continue to look at trade-offs between the pursuit of economic efficiency and achieving poverty reduction and gender targets, and environmental impact.
19. Management has noted the sustainability issues related to rural financial systems (RFS) supported by IFAD in Azerbaijan, Laos, Rwanda and Tanzania (para. 50). The comments made by IOE are pertinent and fully aligned with IFAD's policy on rural finance – for example, the "classic errors in rural finance", Decision Tools for Rural Finance (DTRF), 2010. With respect to the comments made in paragraph 107 on rural finance, Management would like to clarify that both the Rural Finance Policy and the DTRF are geared towards improving the access of the poor to financial services. As part of the new country portfolio of Kenya, the Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT), approved in 2010 is expected to lead to higher effectiveness in the area of rural finance.

E. Recommendations

20. Of the four recommendations made in the 2010 ARRI (para. 143), Management fully supports the following:
 - (a) Include IFAD's approaches and results in conducting policy dialogue as the learning theme for ARRI in 2012; and
 - (b) Develop the required incentives and accountability framework for increasing the number of country programme managers (CPMs) posted in IFAD country offices.
21. With respect to (b), IFAD recognizes that incentives and CPM seniority are clearly key points for the success of IFAD's country presence strategy and it has already made commitments as part of the presentation to the Board on IFAD's Country Presence Policy. The Human Resources Division is reviewing the current incentive framework and the skills development requirements of CPMs.
22. IOE recommends that IFAD Management develop and apply coherent guidelines in 2012 that will serve as the main reference document for IFAD staff in generating adequate levels of counterpart funding from recipient Member States in the context of IFAD-financed projects, taking into account their level of development. Management does not agree with this recommendation. The level of cofinancing for a particular project, while important, is less crucial than leveraging larger resource allocations for agricultural and rural development in a given country. In other words, greater scaling up by governments (through sequential rather than parallel funding), without necessarily cofinancing a particular project, might be a much better strategy in the longer run. Nonetheless, IFAD Management has set a global target for leveraging cofinancing resources (US\$1.50 for every dollar loaned or

⁶ Results Measurement Framework 2013-2015 (document REPL.IX/3/R.4).

granted by IFAD) that acts as a driver in seeking higher counterpart funding for all projects under development. IFAD has been extraordinarily successful in mobilizing local and donor cofinancing for projects. More guidelines on this subject are not necessary in our view.

23. Management has taken note of the ARRI recommendation that it undertake a thorough assessment of achievements following the 2008 memorandum of understanding (MOU) with the African Development Bank, and a thorough review of the existing cooperation framework with the Asian Development Bank. In this regard, Management would like to emphasize that generating a basis for more proactive partnerships between IFAD and these organizations will depend largely upon the efforts made by each institution to develop jointly funded programmes at country level. The preferences and priorities of borrowing Member States is an important factor that affects the outcome in terms of cofinancing for projects. IFAD cofinances projects with all IFIs, including the African Development Bank and the Asian Development Bank. Cofinancing is determined for a project at country level depending on the strategy of the donors in the country, interest in the project and government policies. We have found that global MOUs have little impact. For example, IFAD does not have an MOU with the World Bank, which is its largest cofinancier, but does with AfDB, which cofinances less.