Response of IFAD Management to the Annual Report on Results and Impact of IFAD Operations evaluated in 2014

Note to Executive Board representatives

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A. Introduction
1. IFAD Management welcomes IOE’s Annual Report on Results and Impact of IFAD Operations (ARRI) evaluated in 2014 and the opportunity to respond to the issues and recommendations raised. This ARRI is the last corporate independent evaluation report during the Ninth Replenishment of IFAD’s Resources (IFAD9), a replenishment cycle that witnessed unprecedented results and achievements across the board, with an active portfolio of US$13.6 billion serving 114 million people. Management appreciates IOE’s efforts to address the suggestions raised in the Management response to last year’s ARRI, which have enhanced the quality of the report.

B. Performance trends
2. Management is satisfied with the positive trend in project performance, which has been improving since 2008, particularly with regard to rural poverty impact. On this highest-level objective of IFAD-financed projects, about 87 per cent of the projects were rated positively over 2011-2013 compared to 80 per cent over 2007-2009. Management estimates that, as a percentage of overall financing, about 93 per cent of operations were rated positively during IFAD9.

3. Management acknowledges IFAD’s improving performance as an effective partner from 53 per cent during IFAD5 to 86 per cent during IFAD9. The effect of early decentralization on results across the portfolio is worthy of note: while the share of projects with moderately satisfactory or better ratings across project achievement, innovation and gender equality does not vary greatly, the share of satisfactory (5+) projects is greater in countries with IFAD country offices (ICOs). Management’s own assessment is that at early stages of decentralization, effects on portfolio performance (disbursement, projects at risk, supervision) and non-lending activities (knowledge management, policy engagement, partnerships) tend to be more evident than effects on development results. But even those relationships are not always linear, with several intervening variables affecting the overall effects of country presence.1 More in-depth analysis is therefore required.

4. Notwithstanding IFAD’s overall positive performance, Management is committed to continue raising the "performance bar". Management notes that while the report provides useful insights on persistently challenging areas – such as operational efficiency, sustainability of benefits, environmental and natural resource management, and monitoring and evaluation (M&E) – recently introduced solutions are not yet captured given the cohort of operations analysed. This is particularly true for concerns related to efficiency: these are being addressed by integrating economic and financial analysis more systematically into project design and implementation, focusing on problem projects, including through dedicated technical assistance, and continuing to implement the reform agenda pursuant to the corporate-level evaluation on efficiency (CLEE).

C. Methodology
5. Management suggests that future ARRIs more clearly articulate the implications of the measures of dispersion used in the report. While the standard deviation has been calculated for each evaluation criterion, the underlying reasons for data

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1 In Asia and the Pacific region, for example, the highest disbursement lags are concentrated in countries that have had ICOs for many years (India, Nepal, Pakistan, Sri Lanka, Viet Nam), while the four countries with the lowest disbursement lags do not have an ICO.
dispersion are not clearly stated. For example, innovation and scaling up has been rated as one of the best performing indicators with a mean of 4.2 in table 5 (page 13, based on the PCRV/PPA data). But it is not clear whether the high volatility in the ratings, reflected by the standard deviation of 1.04, implies a diversity of contexts, strategies or regional variations.

6. Management suggests that future ARRIIs perform a more nuanced analysis of the implications of fragility on performance in order to make the conclusions operational. The ARRI database has found significant differences in performance across fragile and non-fragile states with respect to overall project achievement, innovation and gender (charts 16, 17 and 18, page 32 and 33). However, the Management database does not reveal differences of the same magnitude. Management recommends a review of the current methodology for analysing project performance in fragile states with regards to: (i) classification: a large share of the projects being evaluated were active over a long period of time, with levels of fragility differing over the life of the project. Management suggests that the state of fragility be examined at the time of project implementation as opposed to the time of reporting; and (ii) subnational fragility: even in non-fragile states, IFAD operates in fragile areas, with weakened institutions, public service delivery mechanisms and political structures. This is not reflected in fragility classifications that are restricted to the national level, affecting the relevance of the analysis.

7. Management also suggests that future ARRIIs more adequately analyse fiduciary and procurement-related aspects and their impact on results. Only two references are made, in paragraphs 119 and 239, where financial management is referred to as one of several factors contributing to project performance.

D. Clarifications

8. Management shares IOE’s view on the importance of ensuring that results-based country strategic opportunities programmes (RB-COSOPs) remain valid and relevant, with appropriate stocktaking to ensure timely adjustments, for those countries that have RB-COSOPs. However, Management has reduced the number of RB-COSOPs commensurate to the strategic relevance of the IFAD portfolio and policy engagement. Many countries with portfolios of smaller size will still be subject to more in-depth strategic discussions by preparing country strategy notes, concise documents describing the key areas for strategic engagement.

9. Management agrees that several persistent factors constrain different dimensions of project performance, including multiple project components. The report does not however reflect recent trends and improvements in this regard. Simplicity of design is receiving more systematic attention as part of quality enhancement and assurance processes, portfolio reviews and design training, and is beginning to show results. The average number of components for projects approved in IFAD9 is 3.1, down from 3.5 in IFAD8. Recent trends are highly encouraging in this regard, with an average number of components of 3.4 in 2013, 3.2 in 2014 and 2.7 in 2015. However, project complexity is not merely a function of the number of project components, and there is no conclusive evidence of the relationship between project complexity and achievement of results.

E. Recommendations to Management

10. Management welcomes IOE’s efforts to ensure that recommendations are strategic and reduced to a manageable number. It wishes however to note that while all

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2 For example, Yemen is currently classified as a fragile state (and included in evaluation databases as such). However, of three projects included in the project completion report validation/project performance assessment (PCRV/PPA) database, one project was completed in 2009, when the country was not in the current state of fragility. Another project completed in 2012 was implemented over a long period starting in the early 2000s, with no conditions of fragility during the majority of the life of the project.

3 This was the case for example with the India Jharkhand-Chhattisgarh Tribal Development Programme, which was implemented in regions with continuing left-wing insurgency.
three recommendations addressed to IFAD highlight issues of importance, they bundle specific sub-actions that cannot be agreed or disagreed with as a package, but only by assessing their relative feasibility one by one. Management is thus in agreement with the spirit of all three recommendations but wishes to state its views regarding each sub-action (wording simplified in the table below for ease of reference) for adequate and transparent follow-up.

### Sustainability

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<th>IOE recommendation 1</th>
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| a. Project design report (PDR) to include a section on sustainability | Agreed. Both the PDR and President’s report (section IV. D in the template) already contain sections on sustainability, and Management will ensure that due attention continues to be paid to these sections. In addition, the project design guidelines issued in 2011 contain a specific section on sustainability, recommending that project teams provide “an overview of the key elements that enhance the likelihood of the sustainability of the benefits to continue to accrue”.

4 It includes: key assumptions vis-à-vis sustainability of project benefits to the target group: Who benefits? Which benefits? For how long?; measures built into the project design to promote sustainability, including at the institutional or grass-roots level; and systemic changes that are likely to be brought about due to project interventions, in particular addressing aspects of scaling up at the institutional or grass-roots level.

b. Preparation of exit strategy in each project well before completion | Disagree. Management believes that there is no proven relationship between having an exit strategy and effective project sustainability. Management is ramping up efforts to make the scaling up agenda increasingly operational as a way to ensure that strategies for sustainability of benefits are mainstreamed in project design and implementation. Project design and RB-COSOP guidelines require that key aspects of the scaling-up approach should be reflected in the relevant parts of PDRs and RB-COSOPs. In parallel, IFAD is increasingly moving towards a country programme approach that addresses sustainability issues from a more systemic perspective, through synergies of investments and non-lending activities, which may or may not require IFAD presence.

5 The scaling-up aspects to be reflected include: the definition of pathways and the identification of drivers (including champions and catalysts) as part of the project approach; the spaces for scaling up in terms of finance, policies, institutions, technology and environment as part of the rationale; the implications of scaling up on implementation arrangements, including possible partnerships; the mechanisms and approach to learning integrated into the M&E system; and risks related to scaling up and their mitigation strategies.
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<td><strong>IOE recommendation 2</strong></td>
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<td>Management response</td>
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<tr>
<td>a. Inclusion of a separate budget line devoted specifically to M&amp;E activities in all projects</td>
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<td>b. Baseline surveys at design or no later than 12 months after entry into force</td>
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<td>c. More systematic attention to sharpening indicators in general, with data on nutritional impact and gender disaggregated</td>
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<td>d. Inclusion of specific and measurable indicators and targets for non-lending activities in all COSOPs' results frameworks</td>
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<td>e. Development of incentives and accountability provisions for staff on M&amp;E</td>
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6 The operational instruction states that “all projects should have baseline data for most indicators before they are approved by the Board. For each indicator for which baseline data are not available at approval, specific justification is provided in the PDR and provisions to obtain such data within one (1) year of entry into force are specified”. 

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### IFAD country strategies

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<th>IOE Recommendation 3</th>
<th>Management response</th>
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<td>a. Inclusion of realistic and achievable objectives in all COSOPs</td>
<td>Agreed. As stated above, RB-COSOPs will be built around a single programmatic approach and results framework with all investments and non-lending activities contributing to common results. In fact, Management would like to emphasize that the draft new strategic framework 2018-2025 highlights the need to ensure that RB-COSOPs develop targeted and tailored country approaches that are realistic and achievable, customized to the context and building on the strengths of IFAD and its partners.</td>
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| b. COSOP to specify the time frames covered, and how lending and non-lending activities reinforce each other | Agreed. Management believes that this recommendation should be more comprehensively understood as the need to develop a theory of change for country programmes, a prerequisite for the achievement of results. The draft new RB-COSOP guidelines conceive of RB-COSOPs as tools to achieve country-level objectives through the combination of lending and non-lending activities delivered by IFAD's support. Management wishes to record that with the implementation of the new grants policy, in-house review processes increasingly filter grant proposals by assessing the extent to which they reinforce existing investments (and vice versa).

With regards to time frames, Management agrees that RB-COSOPs must clearly specify their duration, normally six years (two PBAS cycles). It wishes to note, however, that other MDBs have learned about the need to allow for flexibility in time frames to accommodate changing country contexts. |
| c. Inclusion of a better account of the estimated "costs" (both programme and administrative resources) in all COSOPs | Disagree. Although Management agrees with the importance of developing realistic RB-COSOPs that can be effectively delivered with available resources, it does not agree that a detailed cost indication in the document is appropriate. Management wishes to record that efforts are under way to do initial cost estimates for some key processes and deliverables, from undertaking consultations for country programme development to managing problem projects, in the context of RB-COSOP development. Management does not believe, however, that it would be prudent to commit to a full resource estimation at the time of RB-COSOP development. Although with limitations, RB-COSOPs already contain an indication of key resources, from PBAS allocations – the main resources for RB-COSOP implementation – to potential grant resources, which are increasingly identified at the time of strategy formulation. Clearly, the costs of implementing RB-COSOPs and achieving the intended results go beyond IFAD resources, including resources from borrowers and partners. Moreover, a significant part of non-lending resources used in RB-COSOPs are contained within operations; i.e. policy dialogue often happens in the context of project implementation. Estimating additional costs is particularly challenging in contexts that require flexibility or more reactive engagements. Management also wishes to note that in the process of approval of RB-COSOPs, quality reviews are in place to ensure that ambitions do not exceed existing resources. |
| d. COSOP completion reviews                                                             | Agreed. Management agrees on the importance of taking stock of results and performance at appropriate intervals, often after two PBAS cycles. In order to ensure efficiency and consistency, Management expects that undertaking RB-COSOPs will also facilitate the undertaking of more efficient country programme evaluations by, for example, providing the information now requested in self-assessments and shortening fact-finding missions. |

### F. Learning theme

11. Management is satisfied with the proposed learning theme of knowledge management for the 2016 ARRI, in line with Management’s request in the 2015 President’s report on the implementation status of evaluation recommendations and Management actions (PRISMA) that IOE provide guidance on the kinds of learning that could contribute to improved performance and effectiveness.