Response of IFAD Management to the 2019 Annual Report on Results and Impact of IFAD Operations

Note to Executive Board representatives

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A. Introduction

1. Management welcomes the 2019 Annual Report on Results and Impact of IFAD Operations (ARRI) and finds most of the recommendations balanced, intuitive and in line with Management's own thinking. While the actions proposed by the Independent Office of Evaluation of IFAD (IOE) have already been identified by Management as part of the commitments to the Eleventh Replenishment of IFAD's Resources (IFAD11), Management will continue to strengthen efforts in these areas as a result of the analysis and recommendations presented in the ARRI.

2. While Management appreciates the candidness of the ARRI and the in-depth analysis of the 2019 dataset, Management has reservations about the methodology and analysis on two areas. The first is related to data and methodological limitations of the ARRI, including the small sample size and the lack of statistical significance of the reported changes in performance. The second relates to performance trends and the factors the ARRI cites as driving these trends – particularly in IFAD10. Management’s detailed views on these issues are presented in sections B and C below.

3. The ARRI, the Report on IFAD's Development Effectiveness (RIDE) and the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions (PRISMA) are complementary but distinct tools within the organization's evaluation architecture designed to further the Fund’s effectiveness, transparency and credibility.

4. Since evaluation is undertaken after project closure, the ARRI aggregated ratings from projects that closed between 2007 and 2017, with a focus on three-year rolling averages from 2015-2017 (based on 59 completed projects) and the first two years of IFAD10 (37 completed projects in 2016 and 2017). It focused its qualitative analysis on 41 new evaluations including project completion report validations, project performance evaluations, impact evaluations, and country strategy and programme evaluations (CSPEs) conducted in the past year. As noted in the ARRI, trends and ratings are based on projects that were designed approximately one decade ago or more, and the report does not take into account recently designed projects, ongoing projects or those completed in the last year of IFAD10. The RIDE contains a full holistic performance report of the IFAD10 period, including data from rigorous impact assessments, ratings from all projects closed in IFAD10 (98 projects), disbursement ratios, cofinancing, ratings at design and metrics of institutional performance across a range of indicators.

B. Data and methodology

5. As mentioned by Management as a limitation in the RIDE, sample size matters since a small number of projects can have a disproportionately large impact on results presented as percentages. **The sample size in the ARRI is less than half of that included by Management in the RIDE.** The ARRI's 2015-2017 sample is based on 59 completed projects compared to 113 in Management’s sample. Additionally, IOE's IFAD10 sample is based on 37 projects from 2016 and 2017 only, whereas Management’s sample in the RIDE covers the entire IFAD10 period (2016-2018) and is based on 98 projects. Therefore, it would be helpful for the ARRI to: present the analysis in terms of numbers and percentages as was done in the RIDE; and cite the number of cases on which the qualitative analysis is based. While performance has declined in terms of percentage of projects rated moderately satisfactory or above, the number of projects rated in the unsatisfactory zone has not increased. In fact, it has decreased on most assessed domains.
6. Second, the declining performance reported in the ARRI is based on minor fluctuations of ratings per cohort. IOE has included t-tests to assess the statistical significance of fluctuations in appendix V (shown in table 1 below). The results of this analysis confirm Management’s concern that performance dips between the different cohorts assessed are not statistically significant for most criteria. There are two exceptions: (i) between IFAD 8 and 10, positive and statistically significant performance was recorded in environment and natural resource management; and (ii) between IFAD9 and IFAD10, negative and statistically significant performance was recorded on relevance and IFAD’s performance (although in both cases, mean ratings are still in the satisfactory zone). Given the lack of statistically significant changes in mean ratings, it is challenging to conclude that performance is declining.

Table 1
Comparison of project average ratings for: IFAD9 vs IFAD8; IFAD10 vs IFAD8; and IFAD10 vs IFAD9

<table>
<thead>
<tr>
<th>Criteria</th>
<th>IFAD8</th>
<th>IFAD9</th>
<th>IFAD10</th>
<th>IFAD9 vs IFAD8</th>
<th>IFAD10 vs IFAD9</th>
<th>IFAD10 vs IFAD9</th>
<th>p-value (IFAD9 vs IFAD8)</th>
<th>p-value (IFAD10 vs IFAD8)</th>
<th>p-value (IFAD10 vs IFAD9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adaptation to climate change</td>
<td>3.67</td>
<td>3.84</td>
<td>3.93</td>
<td>0.16</td>
<td>0.26</td>
<td>0.09</td>
<td>0.26</td>
<td>0.13</td>
<td>0.53</td>
</tr>
<tr>
<td>Environmental and natural resource management</td>
<td>3.77</td>
<td>4.07</td>
<td>4.11</td>
<td>0.30</td>
<td>0.35</td>
<td>0.05</td>
<td>0.03*</td>
<td>0.03*</td>
<td>0.73</td>
</tr>
<tr>
<td>Sustainability</td>
<td>3.70</td>
<td>3.68</td>
<td>3.68</td>
<td>-0.02</td>
<td>-0.02</td>
<td>0.00</td>
<td>0.86</td>
<td>0.89</td>
<td>1.00</td>
</tr>
<tr>
<td>Rural poverty impact</td>
<td>4.25</td>
<td>4.07</td>
<td>3.97</td>
<td>-0.18</td>
<td>-0.28</td>
<td>-0.10</td>
<td>0.13</td>
<td>0.06</td>
<td>0.45</td>
</tr>
<tr>
<td>Overall project achievement</td>
<td>4.01</td>
<td>4.02</td>
<td>3.91</td>
<td>0.00</td>
<td>-0.10</td>
<td>-0.10</td>
<td>0.98</td>
<td>0.52</td>
<td>0.45</td>
</tr>
<tr>
<td>Efficiency</td>
<td>3.80</td>
<td>3.67</td>
<td>3.57</td>
<td>-0.08</td>
<td>-0.03</td>
<td>-0.11</td>
<td>0.62</td>
<td>0.87</td>
<td>0.52</td>
</tr>
<tr>
<td>Government performance</td>
<td>3.81</td>
<td>3.91</td>
<td>3.80</td>
<td>-0.10</td>
<td>-0.01</td>
<td>-0.11</td>
<td>0.44</td>
<td>0.97</td>
<td>0.51</td>
</tr>
<tr>
<td>Scaling up</td>
<td>4.06</td>
<td>4.10</td>
<td>3.97</td>
<td>0.04</td>
<td>-0.09</td>
<td>-0.13</td>
<td>0.79</td>
<td>0.67</td>
<td>0.48</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>4.00</td>
<td>4.03</td>
<td>3.89</td>
<td>0.03</td>
<td>-0.11</td>
<td>-0.14</td>
<td>0.84</td>
<td>0.52</td>
<td>0.34</td>
</tr>
<tr>
<td>Innovation</td>
<td>4.06</td>
<td>4.27</td>
<td>4.14</td>
<td>0.21</td>
<td>0.08</td>
<td>-0.14</td>
<td>0.14</td>
<td>0.70</td>
<td>0.43</td>
</tr>
<tr>
<td>Gender equality and women’s empowerment</td>
<td>4.20</td>
<td>4.17</td>
<td>4.00</td>
<td>0.04</td>
<td>-0.20</td>
<td>-0.17</td>
<td>0.78</td>
<td>0.31</td>
<td>0.30</td>
</tr>
<tr>
<td>Project performance</td>
<td>3.93</td>
<td>3.99</td>
<td>3.77</td>
<td>-0.06</td>
<td>-0.16</td>
<td>-0.22</td>
<td>0.59</td>
<td>0.25</td>
<td>0.06</td>
</tr>
<tr>
<td>IFAD performance</td>
<td>4.16</td>
<td>4.28</td>
<td>4.00</td>
<td>0.12</td>
<td>-0.16</td>
<td>-0.28</td>
<td>0.28</td>
<td>0.25</td>
<td>0.03*</td>
</tr>
<tr>
<td>Relevance</td>
<td>4.27</td>
<td>4.33</td>
<td>4.00</td>
<td>0.06</td>
<td>-0.27</td>
<td>-0.33</td>
<td>0.57</td>
<td>0.06</td>
<td>0.01*</td>
</tr>
</tbody>
</table>

* Indicates significance at 5 per cent level.

7. Third, as indicated by IOE in the ARRI, the performance assessment criteria changed during the review period. As a result, declining performance on some criteria may have resulted from changing assessment standards rather than changing performance. Management would like to highlight one such criterion – scaling up – in which performance appeared to decline in recent years, and where the “disconnect” between Management and IOE ratings was the greatest. In their harmonization agreement (2017), Management and IOE agreed to move from assessing potential for scaling up to scaling up itself. While Management did not retroactively apply the new assessment measure to projects completed in 2017, IOE did. As a result, the two indicators are not comparable either between Management and IOE, or within IOE’s own dataset.

8. Fourth, Management believes that the specific rating of rural poverty impact, currently used both in the ARRI and the IFAD10 Results Management Framework (RMF), is not a robust measure of the impact of IFAD-supported projects since calculating attributable impact requires a counterfactual-based analysis. Instead, the findings on rural poverty impact presented in the ARRI are based on ratings that rely
heavily on qualitative data. For this reason, Management has decided not to include the rural poverty impact indicator in the IFAD11 RMF, and will assess impact solely through rigorous impact assessments in each replenishment cycle. Management looks forward to engaging with IOE in revising this rating criterion (and its subdomains) as a follow-up to the harmonization agreement and in line with best practices from comparator organizations.

C. Overall performance trends

9. Notwithstanding the limitations mentioned above, particularly the results reported in the statistical analysis, Management notes that the performance trends reported in the ARRI are similar to those in last year’s report and Management’s own analysis in the RIDE. For example, both the ARRI and RIDE indicate weaker project performance on efficiency and sustainability compared to other domains. As noted in both reports, there is a strong positive correlation between government performance, sustainability and efficiency.

10. While the ARRI identifies drivers of good and weak performance in each of the assessed domains based on a qualitative review of evaluations, Management would have appreciated a deeper and more differentiated analysis of underlying constraints related to regional or country context. Management’s analysis in the RIDE shows that weaker performance was concentrated in West and Central Africa, and within that region in countries with fragile situations.

11. At the country programme level, we are pleased to note that IOE has adopted Management’s suggestion to present ratings from CSPEs as three-year rolling averages. Given the very small cohort of CSPEs each year (five CSPEs were conducted in very different contexts and regions for the 2019 ARRI), there may be merit in moving away from an analysis of aggregate ratings in the ARRI, which would be in line with suggestions in the peer review.

12. Additionally, the ARRI notes that partnership-building improved while knowledge management and policy engagement declined. Management would have liked to understand better the “disconnect” between these three seemingly related criteria. At the same time, Management agrees that there is room for improvement in performance of non-lending activities. Through a series of interlinked IFAD11 commitments, including the partnership framework, dedicated resources for policy engagement and the cofinancing strategy and action plan, Management is laying the foundation for more robust engagement in non-lending activities at the country level.

Initial performance trends over the IFAD10 replenishment period

13. The new chapter on the IFAD10 replenishment period, which utilizes a partial dataset (37 out of 98 projects completed in 2016 and 2017) presents mixed results, linking an apparent decline in quality to a reduction in country programme management budgets and frequency of supervision and implementation support missions. This is an area that interests Management, but there are two concerns. First, no empirical evidence was included in the report to demonstrate the causal link between declining performance and a decline in budgets or supervision of the assessed projects. Second, none of the individual project evaluations on which the ARRI is based included recommendations to increase the supervision budget and frequency of supervision missions. The most recurrent recommendations (as reported in the 2019 PRISMA) were to make designs more realistic and less complex, improve targeting and address weak implementation capacities.

14. Nonetheless, Management fully agrees that implementation support is critical, and has strengthened supervision and implementation support through: the decentralization of technical, financial and operational staff; and closer monitoring of the portfolio, including actions on potential or actual problem projects. As noted in the 2019 RIDE, as a result of Management’s efforts to promote proactiveness in the
portfolio, quality has improved, with a decline in the number of problem projects and overall improvement in project performance ratings.

15. In conclusion, Management believes that instead of the frequency of missions or budget allocations, the ARRI could have benefitted from more analysis of the effectiveness of design, supervision and implementation support, and the causal links between these and weaker performance.

D. Recommendations to Management

16. In addition to the concrete actions included in the RIDE and PRISMA, Management’s detailed responses to the recommendations are provided below.

Table 2

<table>
<thead>
<tr>
<th>IOE recommendation</th>
<th>Management response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dedicate more resources to country programme delivery – specifically project design, supervision and implementation – to achieve the improved quality needed for a &quot;better&quot; IFAD.</td>
<td>Partially agreed. Management dedicates sufficient budget to country programme delivery, particularly in challenging contexts such as fragile situations and for problem projects. All projects are mandated to have at least one full supervision mission per year, with additional implementation support as needed, and problem projects must have two supervision missions. In some cases, actual expenditures go beyond allocations due to changing circumstances and emerging requirements during implementation.</td>
</tr>
</tbody>
</table>

IFAD’s aim to become “bigger, better, and smarter” appears ambitious based on results thus far. While IFAD managed to maintain a significantly higher ongoing programme of work since IFAD8, the decline in budgetary resources dedicated specifically to design, supervision and implementation may have affected its quality, with lower ratings across criteria in IFAD10. "Better" results also require high-quality technical expertise to support IFAD country programmes and projects. To improve quality standards, IFAD needs to plan and provide the commensurate resources directly to country programme management, design and implementation.

2. Design IFAD programmes and projects according to country capacities based on sound institutional analysis to ensure the most appropriate implementation arrangements for country delivery.

For projects to be more relevant, they need to be appropriate to the country context and designed according to country capacities (including public, private and civil society institutions). This knowledge begins with sound institutional analysis during the country strategic opportunity programme (COSOP) or project design, the inclusion of capacity-strengthening components and support to rural institutions within the country. Agreed. This recommendation is already being addressed through the updated COSOP guidelines. Country teams conduct institutional and risk assessments during COSOP preparation to contextualize IFAD’s support in the country. Based on country context, COSOP objectives are being set with an increased focus on implementation capacity and delivery, particularly in contexts where capacity is weaker. Management will monitor implementation of new COSOP guidelines and adjust them as necessary.

3. Develop government capacities to design and implement country programmes and projects in collaboration with other partners.

Government performance is critical to achieving development objectives and making positive impacts on rural poverty. In the short term, IFAD needs to provide more intensive implementation support, particularly in areas such as procurement and financial management. In the long term, IFAD can utilize its grant financing to work with other partners on strengthening the capacities of government institutions and project management units. Depending on the country and project, multi-donor project management units may be considered along with the greater involvement of government counterparts in

Agreed. As outlined in the development effectiveness framework and reiterated in the IFAD11 business model, there has been an important shift in the organization from being inward-oriented to outward looking. As a result, during IFAD10, IFAD implemented three complementary initiatives to improve in-country capacities: the Programme in Rural Monitoring and Evaluation (M&E) (PRIME); Advancing Knowledge for Agricultural Impact; and Deliver. Together, these unique initiatives in the rural development sector provide holistic capacity-building support in delivery and M&E in-country. In addition, building on the PRIME model, initiatives are already underway to strengthen capacity in financial management and procurement. However, Management agrees that retaining trained project staff is challenging. Through new initiatives such as the Faster Implementation of Project Start-up facility, Management is
4. **Determine the need to adjust project designs earlier on in order to ensure their continued relevance to the country context.**

Good project design is necessary but not sufficient to achieve development objectives. Project design should be viewed as a "living" blueprint that is reviewed and adjusted based on the context during implementation. Active supervision during start-up is needed to determine whether the project design needs to be adjusted even before the midterm review. IFAD’s new restructuring policy should facilitate project redesign early on when necessary, and should not simply be used to close projects that are challenging but important for achieving IFAD’s mandate.  

**Agreed.** Management agrees with IOE’s conclusion, which is aligned with findings presented in the RIDE. Through the Operational Results Management System (ORMS), projects are assessed on a range of indicators during implementation, including continued relevance, with key indicators used as risk flags to identify potential problems early on. IFAD’s recently approved restructuring policy provides the options necessary for country teams to adjust and reorient projects during implementation. Management will continue to focus on strengthening performance by ensuring that all problem projects have performance improvement plans that indicate the level of action required (and restructuring if needed), and are closely monitored.

5. **A more comprehensive and integrated system is required to mitigate risks in IFAD projects and programmes.**

IFAD currently has a decentralized system for risk mitigation at various stages of the project cycle, with assessments conducted by different divisions. To ensure that identified risks are addressed appropriately and at the right time, IFAD needs to develop better linkages among the various assessments from project design to evaluation.  

**Agreed.** An important part of the IFAD11 business model is enhancing the Fund’s risk architecture from the operational to the organizational level. Management has already taken a number of actions to lay the foundations for this, including the development of a risk dashboard and a new risk function in the Programme Management Department that works closely with the Enterprise Risk Management Committee. Currently, both COSOPs and projects have an integrated risk framework that can be tracked during implementation through ORMS.

### E. Learning theme

17. Management acknowledges the two learning themes – efficiency and quality of IFAD’s supervision and implementation support – proposed by IOE for the Executive Board’s consideration, and believes that both are relevant and important for IFAD’s operations. However, Management is concerned that understanding root causes and drivers of project-level efficiency is complex, and may be better suited to a different evaluation product such as a thematic or cluster evaluation (as recommended by the peer review). In addition, while it is necessary to assess the quality of IFAD’s supervision and implementation support, this may be premature given that Management is currently revising the supervision and implementation support guidelines. Therefore, Management would appreciate sufficient time following these revisions before they are evaluated.