IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Enabling the rural poor
to overcome poverty

Response of IFAD Management to the annual report on results and impact of IFAD operations evaluated in 2005

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Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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Response of IFAD Management to the annual report on results and impact of IFAD operations evaluated in 2005

1. IFAD Management considers this year's annual report on results and impact of IFAD operations (ARRI) an important contribution to enhancing Management's understanding of the issues facing the IFAD loan portfolio. It also agrees with the report's conclusion that, while not entirely representative, the findings and data trends presented are valuable in highlighting portfolio management issues. Management appreciates the efforts made by the Office of Evaluation to improve the report's quality and to make it issue-oriented.

2. In line with the decision of the Executive Board taken in September 2004 ([EB-82-MINUTES.pdf](#)), Management reports on how it is responding to the ARRI report in its handling of the ongoing portfolio by way of the portfolio performance report, being submitted to this session of the Board as document EB 2006/89/R.11. The present note focuses therefore on IFAD Management's response to some of the broader issues related to the 2005 ARRI report.

3. As indicated in the portfolio performance report, IFAD Management broadly agrees with the key findings of the 2005 ARRI report, namely that, overall performance, including IFAD's own, has improved. Project sustainability, mid-course project corrections and supervision arrangements need further improvement. It also shares the concerns raised with respect to targeting and has addressed this by adopting a policy on targeting. Management further agrees with the recommendation on setting up a risk management system, the need to reduce design ambition, and the need to address problems identified during project implementation more effectively. IFAD's Action Plan for Improving its Development Effectiveness in response to the Independent External Evaluation undertaken in 2003 is intended to address many of these issues.

4. This year's ARRI report introduces a target score for various project impact domains. IFAD Management appreciates the potential value of such a system in enabling comparison of IFAD's performance against an absolute standard. Proposed targets are being reviewed and, in the light of this review, management will establish target scores against which implementation performance could be measured. IFAD Management will do this keeping in view the development effectiveness targets it has committed to under the Action Plan. IFAD will also learn from the experiences of comparable institutions in setting such standards. In this light, Management will propose a system of target scores for the Action plan deliverables and other relevant indicators which will be presented to the Executive Board through the Development Effectiveness Report in December 2007. In keeping with the spirit of harmonizing self- and independent evaluation systems, the Programme Management Department will work closely with the Office of Evaluation (OE) in preparing this proposal.

5. IFAD Management has noted the increase in the sample size in this year's ARRI report, which has supplemented 11 project evaluations with ratings of another 21 projects that were part of country programme evaluations (CPEs). This enhances the robustness of the findings and is therefore welcome. Two factors need consideration, however. First, inclusion of the CPEs introduces projects designed over a longer period. This makes the sample more heterogeneous and less amenable to generating a performance pattern. Second, the rating of individual projects as part of CPEs is necessarily effort-intensive. This can imply less robust ratings if the process is not adequately resourced. IFAD Management would like OE to consider analysing this trade-off between the larger sample size and a potentially less rigorous evaluation process.

6. IFAD Management subscribes fully to the Millennium Development Goals (MDGs) and thus appreciates OE's work in presenting the impact of IFAD projects towards

achievement of all the MDGs. Management believes, however, that IFAD's contribution should be overwhelmingly in terms of eradicating extreme poverty and hunger (MDG 1). A more in-depth assessment of IFAD's performance against this indicator – rather than analysis relative to all MDG indicators – would therefore be more useful. For example, IFAD's impact on urban poverty (see paragraph 63 of the 2005 ARRI report), while interesting, tends to suggest an expansion of IFAD's mandate and may create expectations that cannot be met by IFAD with regard to impact on urban poverty. IFAD Management would like to underline that its mandate constitutes the basic framework for assessing its performance.

7. Of the important project issues identified by the 2005 ARRI report, weak monitoring systems is a recurring one. Improving monitoring and evaluation (M&E) systems in rural development projects is often difficult and this is also the experience of other development agencies. Given these factors, IFAD will seek to build and mobilize national capabilities, including for self-assessment by target groups, and pursue close collaboration with other donors. It will also integrate the reporting system at headquarters in a way that will enhance the usability of information derived from M&E systems as an IFAD management tool.

8. IFAD Management agrees with this year's ARRI report finding that over one third of IFAD projects are supported by only modestly performing supervision arrangements and that a number of performance challenges persist with respect to the outsourcing of supervision arrangement. The ARRI report indicates that performance of governments is improving, and this is generally confirmed by the project completion reports (PCRs), although the latter also show unsatisfactory performance in one fifth of the projects. The PCRs, which are prepared by governments, have rated IFAD's performance better than the ARRI report has done, so the disconnect with the ARRI report in this domain is therefore very high. The PCRs noted some IFAD issues, such as lack of timely correction of project management problems, infrequent IFAD participation in supervision missions and delay in addressing design failures until the mid-term review. The issues identified are in line with the findings of the Independent External Evaluation and subsequent ARRI reports, and are being addressed through the Action Plan.

9. The recent adoption of IFAD's Policy on Targeting is expected to fill the gaps observed by the ARRI report in clearly defining IFAD's target groups. The new policy requires IFAD Management to undertake more rigorous diagnostic studies and to better monitor targeting performance. It is also becoming increasingly clear that the low asset base, landlessness or access to only severely degraded land, social exclusion, and exposure to low intensity conflicts that characterize the poorest tend to undermine the sustainability of IFAD's assistance, which is geared towards such vulnerable groups. This situation tends to be further exacerbated by modest government support and therefore relatively weak institutional infrastructure, both in the formal and informal sectors. IFAD faces a significant challenge in assuring the sustainability of interventions in situations where the institutional human and physical asset base is very weak. In such situations, achieving sustainability while targeting the poorest within the limited period of a single project, presents a particular challenge and, when appropriate, may require second-phase projects.

10. In the light of the foregoing, future projects will allow adequate time for building self-sufficient community organizations crucial for sustaining project outputs and will also undertake protective measures for resource conservation, which usually produce results only in the longer term. Furthermore, IFAD Management will enhance the quality of baseline surveys to fill information gaps and thus enable more responsive designs, improve partnership with other donors, achieve better integration with country-owned strategies, and strive for better M&E systems. It would also emphasize treating the creation of social capital as an organic process and thereby better ensuring sustainability. IFAD works in a very difficult environment and in

striving to achieve the Action Plan target of 80% sustainability, this aspect will be kept fully in mind in the design and implementation of its projects.

11. Realizing the complexity inherent in the issue of sustainability and the need therefore to tackle it from the design phase onwards, the new format of the President's report for projects contains a separate section describing the arrangements for post-project sustainability (EB 2006/88/R.5).

12. IFAD Management agrees with the recommendation of the 2005 ARRI report with respect to strengthening its risk management system. It will calculate a risk ratio that signals the degree of risk and that allows Management to calibrate its response. This will be facilitated by the revised framework for the results-based country strategic opportunities programmes (EB 2006/88/R.4) and further strengthened by the revised President's report format. Enhanced risk assessment at the design stage will be complemented by a more rigorous analysis of the risks present in projects in the ongoing portfolio. With this objective in mind, the portfolio-at-risk analysis has been significantly strengthened in this year's portfolio review process and a more nuanced system of classification, allowing for early identification of projects with potential risk, has been introduced. The next step would be to more closely align the supervision and implementation support resources with the risk profiles of individual projects. The system of prompt follow-up to supervision recommendations on implementation will be strengthened, and design-related issues will be addressed without waiting for mid-term reviews.

13. IFAD Management agrees in principle with the recommendation of OE to engage in broad-based discussion on the type of analysis required to resolve the issues related to sustainability. In fact, it believes that the overall findings of the ARRI report could be used more effectively for enhancing learning among staff across IFAD. Management will therefore work closely with OE in further optimizing the learning aspects associated with independent evaluations.