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Response of IFAD Management to the Annual Report on Results and Impact of IFAD Operations evaluated in 2006

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For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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1. In line with the decision taken by the Executive Board in September 2004 ([EB-82-MINUTES.pdf](#)), Management reports on how it is responding to the Annual Report on Results and Impact of IFAD Operations (ARRI) in its handling of the ongoing portfolio by way of the Portfolio Performance Report (PPR) – submitted to this Board session as document EB 2007/92/R.8. The present note therefore focuses on Management's response to some of the broader issues raised in this year's ARRI report.
2. The 2006 ARRI report, the fifth so far, presents a synthesis of the results and impact reported in the evaluations undertaken in 2006. It has introduced a number of changes that Management considers to have enhanced the report's quality and to be relevant to the needs of IFAD operations. These relate to the:
 - (a) Statistical review by the Office of Evaluation (OE) – with the assistance of a professional development statistician – of the data available and the conclusion that the trend analysis on a year-to-year basis is unreliable, given the relatively small number of evaluations conducted in any one given year (paragraph 5);
 - (b) Emphasis placed by OE on learning, particularly in connection with the issues of sustainability and innovation (paragraphs 9 and 111-143);
 - (c) Re-rating of the evaluations produced in 2002-2004 using a six-point scale (paragraph 3); and
 - (d) The consolidation of existing data over 2002-2006 from evaluations already included in previous ARRI reports, thus making the results for the five-year period more reliable and robust.
3. The statistical review addresses a concern voiced by Management in the past that the sample size considered is too small, particularly since projects are selected on a non-random basis. Similarly, now that both OE and the Programme Management Department (PMD) have adopted a six-point rating scale, the rating systems of independent evaluations and self-assessments are now fully harmonized and directly comparable.
4. On the application of current standards to evaluate projects designed in the past with objectives that differ from today's priorities (paragraph 17), while Management agrees in principle to such an approach, it calls for moderation in its application. Projects should be assessed mainly on the basis of the original objectives, modified, as applicable, at the time of evaluation. Reviewing their performance in the light of current IFAD institutional concerns should therefore be undertaken mainly as a learning exercise. Adjustments to project design during implementation are a possibility, as stated in the 2006 ARRI report, and indeed may even be a necessity, but they can and should only be made with the full agreement of the concerned government. In fact, governments may wish to retain the objectives initially set out for a project and may not agree to change objectives based on the IFAD Strategic Framework 2007-2010 or other corporate policies (e.g. rural finance, private-sector development, etc.) introduced by the Executive Board after project approval.
5. As the PPR report points out (paragraphs 87-92), there is generally a low level of variance between its results and those of the ARRI report. In other words, most ARRI findings are supported by Management's own assessment of the impact of its

portfolio. This has helped Management to identify with confidence the core areas where performance has to be improved.

6. Management agrees with the ARRI finding that sustainability requires “concerted attention” (paragraph 53). It has, in fact, identified sustainability as a key measure of its performance both in IFAD’s Action Plan for Improving its Development Effectiveness (EB 2005/86/R.2/Rev.2) and in the Results Measurement Framework for reporting on progress achieved against the IFAD Strategic Framework 2007-2010 (EB 2007/91/R.2). It also agrees with the 2006 ARRI finding that the challenge of sustainability is not peculiar to IFAD, but “one shared with its development partners ... governmental or donor” (paragraph 122). While not a definitive conclusion, improvements in IFAD’s performance in this area were noted both by the ARRI report (53 per cent of the total sample) and the PPR (63 per cent), as against the Independent External Evaluation of IFAD (IEE) finding of 40 per cent (ARRI, paragraph 53; PPR, executive summary, paragraph 5).
7. The absolute level of achievement of IFAD-financed projects in terms of sustainability remains an area of concern despite recent improvements. Management is fully committed to addressing this concern and intends to improve performance by: (i) helping strengthen the capacity of institutions relevant to the needs of the rural poor; (ii) responding more promptly where implementation weaknesses have been identified and thereby increasing efficiency, which is closely related to sustainability; and (iii) requiring an early definition of a sustainability strategy for projects (PPR, paragraphs 56-61).
8. Management also agrees with ARRI findings that, in projects that underperform in terms of sustainability, the recurring issues tend to be (i) overambitious project objectives, (ii) inadequate time allowed for institutional development, and (iii) weak institutional and social risk analyses. Lack of a permanent IFAD country staff presence also hampers sustainability in IFAD-funded operations (paragraph 120) since it limits IFAD’s capacity to provide implementation support, undertake policy dialogue and strengthen partnerships. Yet another factor affecting sustainability is the difficult context in which IFAD works (ARRI, box 1). Management will systematically address these issues, and, as recommended by the ARRI report, it will allocate more resources for direct supervision and implementation support.
9. The ARRI report recommends developing an IFAD approach to sustainability. Management believes that sustainability is a cross-cutting issue that needs to be addressed comprehensively at various stages of the project cycle. This calls for revisiting and upgrading many existing processes. For instance, the project design manual currently being developed under the Action Plan will provide guidelines for formulating a sustainability strategy as part of project design. The new IFAD quality enhancement and quality assurance systems will check how sustainability is being addressed by each project. Other project processes such as start-up workshops, supervision and implementation support, and mid-term and completion reviews will also specifically look at this aspect of project performance.
10. On innovation and scaling up, disaggregated analyses undertaken for the PPR report (paragraph 67) show that IFAD performs less well in replicating and scaling up than in innovating. Enhancing access to markets is another area needing improvement (ARRI, paragraph 152), but it is one that is often beyond the immediate influence of IFAD-funded projects and would need a judicious combination of project and non-project instruments. The new country programme approach and the results-based country strategic opportunities programmes (COSOPs), which will coordinate the use of loans, grants, partnerships and knowledge management instruments in a synergistic and mutually reinforcing way, will help address these issues. Two recently adopted strategies – the IFAD Innovation Strategy and the IFAD Strategy for Knowledge Management – will also play an important role in this context. In all these areas, building strategic

partnerships is of critical importance, and IFAD will systematically work with partners to solve problems and deliver results (Strategic Framework, paragraph 85). Such partnerships will not only help extend impact to additional rural poor people but also contribute to sustaining that impact and helping the poor move out of poverty permanently.

11. Management welcomes the 2006 ARRI report's proposal to undertake thematic analyses during the preparation of next year's ARRI on country context and monitoring and evaluation systems. That country context affects project performance is supported by the econometric analyses undertaken to pinpoint the factors affecting the portfolio at risk (PPR, paragraph 39). Under the new results-based COSOP framework, IFAD has assigned high priority to strengthening country capacity in order to improve development effectiveness. There are a number of important issues that need to be addressed with respect to monitoring and evaluation, and Management is carrying out activities that will help strengthen this aspect at the project level (PPR, paragraph 135).