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## **Annual Report on Results and Impact of IFAD Operations evaluated in 2006**

Executive Board — Ninety-second Session  
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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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## Abbreviations and acronyms

AfDB	African Development Bank
ARDE	<i>Annual Review of Development Effectiveness</i> (Independent Evaluation Group, World Bank)
ARRI	Annual Report on Results and Impact of IFAD Operations
AsDB	Asian Development Bank
COSOP	country strategic opportunities paper/programme
CPE	country programme evaluation
CPIA	country policy and institutional assessment (World Bank)
CPM	country programme manager
EVEREST	Evaluation of IFAD's Regional Strategy in Asia and the Pacific
IEE	Independent External Evaluation (of IFAD)
IFI	international financial institution
M&E	monitoring and evaluation
MDG	Millennium Development Goal
OE	Office of Evaluation (IFAD)
OECD/DAC	Development Assistance Committee (Organisation for Economic Co-operation and Development)
PBAS	performance-based allocation system
PMD	Programme Management Department
RDS	rural development sector

## Executive summary

1. This is the fifth Annual Report on Results and Impact of IFAD Operations (ARRI) prepared by the Office of Evaluation (OE). It synthesizes the main results and impacts from the 15 IFAD-funded projects evaluated by OE in 2006, and also draws upon the findings of three corporate-level and three country programme evaluations.
2. In addition to providing a comprehensive account of the results and impact of the evaluated operations, this year's ARRI report focuses more generally on learning, with the purpose of identifying the main determinants of performance and results. In short, it attempts to ask and answer the broad questions: "What was the performance?" and "Why was performance as it was?"
3. A review of previous ARRI reports by a professional statistician noted that a comparison of 2006 ratings with previous years – and indeed any comparison from year to year – was unreliable because of the small size and non-random nature of the sample. As a consequence, this year's report places less emphasis on such year-by-year comparisons. As in the past, however, it provides a summary of the 2006 evaluation data, plus an overview of the performance and impact of a larger sample, namely the 73 projects evaluated by OE over the period 2002-2006 and contained in the four previous editions.
4. With regard to learning, this ARRI report includes a specific section (VI) devoted to two themes: sustainability and innovation, which emerged in past reports as areas in need of attention. The report builds on the inputs generated in two in-house learning workshops with IFAD Management and staff, and makes recommendations on how performance might be enhanced in these two key areas.

### Specific learning findings

5. This and previous ARRI reports have identified sustainability as one of the most challenging areas in which the Fund's performance has not yet been satisfactory. While recognizing that sustainability is also a concern for other development agencies, and that the Fund is already addressing this issue, evaluation reports and discussions at IFAD have identified a number of points that need to be considered in order to strengthen the Fund's performance in this critical area. For instance, some of the priorities identified for moving forward in addressing sustainability were the need to ensure that project objectives are realistically established, exit strategies are designed early in the project cycle, and systematic efforts are made to build ownership and improve the capacities of implementing institutions. Further, given its importance, this year's report recommends that IFAD develop a specific approach to increasing the sustainability of IFAD operations.
6. IFAD's performance in introducing innovations – for example in the area of on- and off-farm technologies, institutions and social engineering – has been moderately satisfactory. While the new IFAD Innovation Strategy is expected to further improve and structure IFAD's overall approach to innovation, the report observes that past performance in scaling up and replicating successful innovations has been weak. For this purpose, more resources and efforts must be devoted to partnership-building, knowledge management and policy dialogue, which are essential aspects of IFAD's innovation promotion process. Moreover, there is also scope for a wider use of grants in testing innovative approaches and in developing ways and means to systematically feed the results of grant-funded activities into loan-funded projects and programmes.

## General evaluation findings

7. The sample of projects evaluated by OE in 2006 dates mainly from the mid-1990s.<sup>1</sup> Consequently, the ARRI report can only present a lagged picture of IFAD's results and impact. It is not and should not be interpreted as an assessment of ongoing operations, where performance is likely to be better than has been the case for the operations analysed in the project evaluations, as some of the ARRI analysis already suggests.
8. Evaluation findings from the 15 projects evaluated in 2006 are broadly similar to those of previous years. Overall, the picture is satisfactory<sup>2</sup> in all but one evaluation criterion. Eighty per cent of the projects evaluated in 2006 were judged satisfactory with respect to project performance (a composite of the ratings for the criteria of relevance, effectiveness and efficiency) and rural poverty impact. Relevance remains a strong point, as does the positive impact on human assets, food security and agricultural productivity. IFAD's performance as a partner was rated satisfactory in 60 per cent of the projects evaluated.
9. Along with these strengths, the 2006 evaluations identify shortcomings similar to those identified in previous ARRI reports: limited sustainability; difficulties in reaching poorer groups and in promoting gender equity; insufficient attention to markets; and poor monitoring and evaluation. Corporate-level and country programme evaluations reveal scope to improve non-project activities, such as policy dialogue, partnership-building and knowledge management.
10. An analysis of data from the 73 projects rated by OE from 2002 to 2006 provides a more reliable measure. Overall, IFAD's past performance was rated satisfactory in all evaluation criteria, with the important exception of sustainability, which was unsatisfactory in the majority of projects (55 per cent). Eighty-four per cent of the projects were rated satisfactory in terms of project performance and 65 per cent in terms of rural poverty impact. IFAD-funded projects have made their strongest contributions in the impact domains of physical and human assets, followed by food security and financial assets.
11. A comparison with other international financial institutions supports the overall satisfactory performance of IFAD as highlighted above. Notwithstanding the difficulties inherent in benchmarking, the Fund's project performance rating is broadly comparable with the outcome ratings, except for sustainability, of the agricultural and rural-sector operations of the World Bank. Its success rate in the Asia and the Pacific region is better than that shown in available data from the Asian Development Bank.
12. Scope for improvement remains. Operations have been less effective in the impact domains of environment and common resources, and institutions and services. While it is clear that IFAD has played a more active role in addressing gender issues – and has gotten it right in places – it has not done so in some projects. Some evaluations suggest that more needs to be done to promote access to markets. However, all in all, weak sustainability remains the major problem, given its centrality to IFAD's overall development effectiveness.
13. It is important to recognize the steps IFAD has taken and is taking to address the weaknesses identified above. Foremost among these is IFAD's Action Plan for Improving its Development Effectiveness, approved by the Executive Board in December 2005. While this report acknowledges these steps, it does not attempt an assessment of their likely effectiveness. This would be outside the scope of the ARRI report, which is largely based on evaluations of completed operations. The

<sup>1</sup> About two thirds of the projects evaluated in 2006 were approved from 1993 to 1997.

<sup>2</sup> 'Satisfactory' includes the top three ratings on a six-point scale (with 1 being the lowest score and 6 the highest). Thus satisfactory would include the ratings 6 (highly satisfactory), 5 (satisfactory) and 4 (moderately satisfactory).

performance improvements arising from the Action Plan and other measures will need time to be reflected in evaluation findings.

14. Two findings of the analysis of data from past ARRI reports stand out. First, project success was strongly correlated with the country context. Project achievement was markedly lower in low-income countries and those with more-challenging policy and institutional contexts.<sup>3</sup> Second, projects that became effective after end-December 1996 appear to have performed better, and to be more sustainable, than earlier projects. This is a good sign, as it suggests that IFAD is able to learn from past lessons and experiences. These findings are further elaborated in paragraphs 89-100 in the main text.

#### **Recommendations**

15. The report contains a recommendation (paragraph 157) that three issues be examined in more detail in future ARRI reports as a contribution to learning within IFAD. It is understood that a varying level of effort and resources will be required by OE and IFAD Management to appropriately address each of these topics:
  - (i) Monitoring and evaluation at the project and programme level;
  - (ii) IFAD's treatment of the characteristics and implications of country context;  
and
  - (iii) Performance in three impact domains, namely the environment and common resources, institutions and services, and markets.
16. This year's report also includes a proposal concerning the future content of ARRI reports (paragraphs 158-159).

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<sup>3</sup> Eighty per cent of IFAD loans and grants have been in low-income countries.





# Annual Report on Results and Impact of IFAD Operations evaluated in 2006

## I. Introduction

1. This is the fifth Annual Report on Results and Impact of IFAD Operations (ARRI) produced by the Office of Evaluation (OE).<sup>4</sup> In keeping with previous years, the ARRI report consolidates and synthesizes the results and impact of IFAD operations based on a cohort of project, country programme and corporate-level evaluations conducted in 2006.
2. As in the past, the objective of the ARRI report is twofold: (i) to present a synthesis of performance based on a common methodology for evaluation; and (ii) to highlight key learning issues and development challenges that IFAD needs to address to enhance its overall development effectiveness. While the primary audience for the report includes IFAD Management and staff, and the Fund's Evaluation Committee and Executive Board, it is also of importance to the wider development community, as it raises systemic issues related to sustainable agricultural and rural development at large.
3. In the development of this year's ARRI report, OE undertook a number of preparatory activities that deserve to be mentioned. First, from 2002 to 2004, OE's evaluation methodology required evaluators to use a four-point scale<sup>5</sup> for assigning ratings to the various evaluation criteria. In 2005, OE adopted a six-point rating scale<sup>6</sup> and has applied it to all evaluations since. To allow for comparisons and homogeneity, OE had the ratings based on the four-point scale systematically converted to the six-point one.<sup>7</sup>
4. In addition to reporting on performance based on the six-point rating scale, as a new feature in this ARRI report, OE introduces the broad categories of 'satisfactory' and 'unsatisfactory' for reporting on performance across the various evaluation criteria. This is done by aggregating under satisfactory the percentage of project ratings falling in the three higher ratings (4-6), and under unsatisfactory those in the three lower ratings (1-3). The introduction of these two categories<sup>8</sup> allows the reader to gain a rapid appreciation of whether the performance of IFAD-funded projects lies in the satisfactory or unsatisfactory zone across a particular evaluation criterion. However, performance in the satisfactory zone should not lead to complacency, especially when actual performance is just above the unsatisfactory line (i.e. rated 4, moderately satisfactory).
5. This ARRI report places less emphasis on drawing inferences by comparing the 2006 ratings with previous years. In this regard, a review by a senior development statistician<sup>9</sup> of the ARRI data available noted that comparisons or trend analysis from year to year were unreliable – due to the relatively small number of evaluations conducted in a given year and the fact that projects and country programmes selected for evaluation are not chosen on a random basis, hence potentially introducing a bias. In a relatively small cohort, these factors could also contribute to potential distortions in the results – for better or worse – by one or two outstanding or very poorly performing projects. Moreover, it would also be

<sup>4</sup> OE is required to produce the ARRI report annually, in accordance with the provisions of the IFAD Evaluation Policy (see paragraph 20 in document EB 2003/78/R.17/Rev.1).

<sup>5</sup> With 1 being the lowest score (worst) and 4 the highest (best).

<sup>6</sup> This is consistent with the approach adopted by other independent evaluation functions in international financial institutions. OE uses a six-point scale for assessment across all evaluation criteria. For example, for effectiveness, the following would be the legend: 6 = highly effective, 5 = effective, 4 = moderately effective, 3 = moderately ineffective, 2 = ineffective and 1 = highly ineffective.

<sup>7</sup> Annex II provides information on the conversion method.

<sup>8</sup> The Annual Review of Development Effectiveness (ARDE) produced by the Independent Evaluation Group of the World Bank uses a similar categorization.

<sup>9</sup> Former chief statistical adviser of the Department for International Development (DFID), United Kingdom of Great Britain and Northern Ireland.

difficult to determine whether changes in performance from one year to another are due to actual improvements or deterioration in IFAD operations or simply a consequence of the sample of projects evaluated in a particular year. In other words, there is a risk connected with undertaking comparisons of performance on a year-by-year basis.

6. As the sample of projects changes from one year to the next, any perceived differences may simply reflect changes in the sample. Any real performance changes over time tend to be gradual and would therefore likely be measurable after a longer period. A more prudent and reliable approach, therefore, is to analyse, as a block, a larger sample of data collected over a longer time frame. Aggregating data for more than one year is a pragmatic way to make the best use of a relatively limited data set, is more reliable from a statistical point of view and is likely to generate more precise conclusions.
7. Apart from reporting on results and impact for 2006 (section III), this ARRI report includes an overview of all ratings available over the past 5-year period (2002-2006) (section V). This is consistent with the overall approach of the previous three editions of the document, which also included presentation of results for projects evaluated in previous years and contained in preceding ARRI reports.<sup>10</sup> It is also consistent with the practice of other international financial institutions (IFIs), such as the World Bank and the Asian Development Bank. That said, this year's report for the first time attempts to analyse performance across all evaluation criteria for the 5-year period as a block and to identify proximate causes of good or poor performance.
8. With regard to results and impact, it is important to stress that, as in the past, the ARRI report is mostly about completed operations and as such does not aim to report on the performance of ongoing operations.<sup>11</sup> On the other hand, it is not about remote history or the distant past. In fact, a number of operations covered in this year's report were just recently completed or about to be completed, some of them continuing to incur disbursement as of today. Further, OE evaluates a number of ongoing operations as part of its country programme evaluations (CPEs). On another issue, the ARRI report acknowledges the existence of a number of promising change initiatives currently being implemented under IFAD's Action Plan for Improving its Development Effectiveness, which are expected to contribute to improving IFAD's development effectiveness in the near future. As promising as they are, however, these initiatives are too recent to have yielded evaluable results for this report.
9. As anticipated last year, in addition to providing the customary account of the results and impact of IFAD operations, this year's ARRI report focuses on learning more than it has in the past. That is, while ensuring that the report continues to serve as the prime instrument of accountability based on independent evaluations, increased efforts have been made to understand the causes of good performance or areas of IFAD operations that need further improvement and attention. In sum, in addition to reporting on 'what' the performance was, the report aims to gain a deeper understanding of 'why' the performance was as it was. This in turn facilitates the identification and consolidation of learning issues to be considered in the future.
10. The ARRI report includes specific discussion of two themes – sustainability and innovation – that have been raised by past reports as areas requiring attention (section VI). OE undertook research on these topics in consultation with the Programme Management Department (PMD). It organized two separate workshops earlier this year to engage IFAD staff in a dialogue on these topics, including IFAD's performance in these areas in the past. A number of measures to address the

<sup>10</sup> For example, the ARRI report presented to the Executive Board in 2006 (document EB 2006/89.R.10) included an overview of ratings for the period 2002-2004 in addition to the assessment of evaluations done in 2005.

<sup>11</sup> This is consistent with the approach taken by other IFIs in the production of documents similar to the ARRI report. For example, see appendix A in the World Bank's 2006 ARDE.

constraints faced by IFAD on sustainability and innovation were identified during the discussions – and were considered in developing the corresponding recommendations contained in sections VI and VIII of the present report.

11. Moreover, this year's ARRI report includes a provisional list in section VIII of topics that correspond to areas needing improvement and management attention, and that could thus form the core learning themes for future reports. Subject to the agreement of the Executive Board, OE would treat two of the issues from the list thoroughly in next year's report, through an approach similar to that taken this year in addressing the issues of sustainability and innovation.
12. This fifth edition presents a brief overview of the evolution of the content of ARRI reports (section VII), beginning with the first edition in 2003, and includes some considerations for the future.
13. The remainder of the report is structured as follows: section II provides an outline of the evaluations conducted in 2006. Section III provides a synthesis of the performance of the projects evaluated in 2006. Section IV includes an overview of the main issues emerging from corporate-level evaluations and CPEs included in the report. Section V contains an analysis of the ratings from evaluations carried out in the period 2002-2006. The two thematic topics of sustainability and innovation are treated in section VI, while section VII contains an overview of the contents of ARRI reports. Section VIII presents this report's key conclusions and recommendations, including a list of proposed learning issues for the approval of the Executive Board, to be covered in future reports.

## **II. Projects and programmes evaluated**

14. The evaluations used as a basis for developing this year's report are listed in table 1. They include assessments and ratings of 15 projects in all five geographic regions covered by IFAD operations.<sup>12</sup>
15. As illustrated in table 1, the total value of IFAD loans for the 15 projects rated during 2006 was about US\$247 million. The total cost of the projects was about US\$518 million. As in previous years, the 2006 evaluation cohort covers a range of different types of projects (e.g. in terms of subsector focus) from the five IFAD geographic regions.<sup>13</sup> The size of the 2006 sample covers approximately 25 per cent of completed projects in any one year, which is broadly in line with evaluation practices in other IFIs.

## **III. Evaluation findings 2006**

16. This section provides a synthesis of the results of the 15 projects rated by OE in 2006. These projects were mainly approved in the mid-1990s, as can be seen from table 1, and implemented mostly during the period 1994-2007.<sup>14</sup> Thus they inevitably present a lagged picture of IFAD's results and impact. However, as mentioned in paragraph 8, the ARRI report is not about history or a too distant past, as it is also based on the assessment of selected ongoing operations and projects that have recently been completed or are about to be.

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<sup>12</sup> Seven of the 15 projects were rated in the context of country programme evaluations (CPEs). While the intensity and, in particular, costs of single project evaluations are different from projects evaluated in CPEs, the latter are conducted using the same methodology and with no less rigour, and always entail visits to project sites and interactions with beneficiaries and other stakeholders.

<sup>13</sup> Western and Central Africa, Eastern and Southern Africa, Asia and the Pacific, Latin America and the Caribbean, and Near East and North Africa. Of the 15 projects evaluated in 2006, there were four each in Latin America and the Caribbean, the Near East and North Africa and Western and Central Africa, two in Eastern and Southern Africa and one in Asia and the Pacific.

<sup>14</sup> Four of the projects evaluated are ongoing.

Table 1  
Evaluations undertaken in 2006

Type	Country	Title	Executive Board approval date	Project completion date	IFAD loan <sup>a</sup> (US\$ million)	Total project costs (US\$ million)
<b>Corporate level evaluations</b>	Asia/Pacific	Regional Strategy in Asia and the Pacific				
	All regions	Field Presence Pilot Programme				
	All regions	IFAD Rural Finance Policy				
<b>Country programme evaluations</b>	Brazil	Low-income Family Support Project in the Semi-arid Region of Sergipe State	December 1993	December 2002	17.9	25.9
		Sustainable Development Project for Agrarian Reform Settlements in the Semi-Arid North-East	December 1998	December 2008	25.0	93.5
	Mali	Income Diversification Programme in the Mali Sud Area	December 1994	December 2004	15.0	27.1
		Zone Lacustre Development Project – Phase II	April 1996	December 2005	12.7	20.1
		Sahelian Areas Development Fund Programme	December 1998	March 2009	21.9	45.9
	Morocco	Rural Development Project for Taourirt-Taforalt	December 1996	June 2008	19.5	49.4
	Rural Development Project in the Mountain Zones of Al-Haouz Province	December 2000	March 2008	18.0	30.2	
<b>Project interim evaluation</b>	Peru	Development of the Puno-Cusco Corridor Project	December 1997	December 2007	18.9	30.9
<b>Project completion evaluations</b>	Colombia	Rural Micro-enterprise Development Programme	September 1996	December 2006	16.0	25.9
	Ethiopia	Southern Region Cooperatives Development and Credit Project	December 1993	July 2005	17.5	20.8
	Georgia	Agricultural Development Project	April 1997	June 2005	6.6	27.1
	Niger	Special Country Programme – Phase II	September 1995	June 2004	14.9	20.0
	Philippines	Cordillera Highland Agricultural Resource Management Project	December 1995	December 2004	9.2	41.5
	Romania	Apuseni Development Project	September 1998	December 2006	16.5	34.1
	United Republic of Tanzania	Participatory Irrigation Development Programme	September 1999	December 2006	17.1	25.3
<b>Total</b>					<b>246.7</b>	<b>517.7</b>

<sup>a</sup> The IFAD loan and the costs indicated for the three CPEs relate to the total loan amount and overall costs only of those projects evaluated and rated in the framework of the corresponding CPE. That is, the figures are not indicative of IFAD's total loans to the country nor are they representative of the total costs of all projects financed by the Fund in that country.

17. There is another issue to consider: not all projects designed in the mid-1990s had explicit objectives in areas that are considered a priority in today's context (e.g. the environment, access to markets, gender issues). However, neither is it entirely correct to argue that operations designed in the mid-1990s should not be expected to have addressed such important topics, which were or became a central part of the development agenda of the international community and other development organizations at the time.<sup>15</sup> In fact, it would have been fair to expect operations to

<sup>15</sup> For example, the United Nations Conference on Environment and Development in 1992 in Rio de Janeiro provided a further impetus within development organizations, including IFAD, for issues concerning the environment. In fact, environmental concerns – including environmental impact assessments – have been a built-in requirement of IFAD project design for more than a decade.

undergo the required adjustments during implementation to take these important topics at least partly into account.<sup>16</sup> For evaluation to be useful, it is good international practice to attempt to analyse the results and lessons learned in key areas of concern to the institution today.

#### A. Relevance, effectiveness and efficiency<sup>17</sup>

18. Table 2 provides an overview of the analysis across the 15 projects rated in 2006.

Table 2  
Relevance, effectiveness and efficiency (percentage by rating)<sup>a</sup>

<i>Rating</i>	<i>Relevance</i>	<i>Effectiveness</i>	<i>Efficiency</i>
6 Highly satisfactory	27	-	7
5 Satisfactory	33	20	20
4 Moderately satisfactory	33	47	47
<b>Total: satisfactory</b>	<b>93</b>	<b>67</b>	<b>73</b>
3 Moderately unsatisfactory	7	27	20
2 Unsatisfactory	-	7	7
1 Highly unsatisfactory	-	-	-
<b>Total: unsatisfactory</b>	<b>7</b>	<b>33</b>	<b>27</b>

<sup>a</sup> In order to avoid the use of decimal points, some percentages in the table have been rounded using a consistent approach. This explains the apparent discrepancy of up to one percentage point in some totals. This note is also applicable to tables 5, 6 and 13.

19. Regarding **relevance**, 60 per cent of the total sample was rated highly satisfactory or satisfactory, while only 7 per cent of the projects were rated moderately unsatisfactory. However, a number of evaluations observed that while project objectives remained relevant to the needs of rural poor people, implementation limitations did not always allow the poorer groups to be covered by project services, thus making the operation less relevant for them. For example, in the case of Romania, the project was unable to reach smaller farmers adequately, mainly due to the high collateral requirement in the financial products offered and the project's wide geographic coverage in comparison with the limited institutional outreach capacity of the rural finance institutions.
20. This issue emerged in numerous evaluations. The new IFAD Targeting Policy approved by the Executive Board in September 2006 provides clearer guidance on how to enhance targeting in IFAD operations, and the effects of this policy may be captured by evaluations in coming years. For the time being, however, the tendency to use geographical rather than socio-economic targeting mechanisms was identified as a concern in several operations evaluated in 2006. While geographical targeting is important, it may be insufficient in itself for reaching poorer groups. For example, the use of unsophisticated targeting mechanisms to analyse one of Ethiopia's four largest regions, and probably the most diverse in ethnic terms, led to the overlooking of significant variations in rural poverty. As a result, only a small number of women benefited from the project. A lack of disaggregation and socio-economic analysis at the project level was also found in the Georgia project evaluation, with the result that significant variations in rural livelihoods were not exposed and fed into project design.

<sup>16</sup> Similarly, it is legitimate to expect operations designed and approved in the past to be retrofitted and realigned to comply with new policies and strategies adopted by the institution – and with the learning and hindsight embodied in them. This is especially important to ensure that IFAD's ongoing operations, at any point in time, can draw on the Fund's guidance as contained in its most recent policies and strategies.

<sup>17</sup> 'Relevance' is defined as the extent to which project objectives are consistent with the needs of rural poor people, IFAD's Strategic Framework and policies, and the country's current policies and strategies for poverty reduction. 'Effectiveness' is defined as the extent to which project objectives were achieved at project completion. 'Efficiency' is a measure of how economically inputs (funds, expertise, time, etc.) were converted into outputs.

21. The Georgia, Philippines and Romania evaluations reported instances of capture of project benefits by elites. It is of particular concern that benefits have accrued in a disproportionate manner to those with more resources. This calls for project objectives to be formulated more specifically, clearly stating who should be benefiting, in what way, and by when.
22. Indications of more sophisticated targeting were found in the Peruvian project. A comprehensive, systematic needs analysis of beneficiaries' priorities was undertaken. It was backed up by thorough awareness of the policy context, which included the need to promote commercialization and strengthen adaptive research in agriculture. In Colombia, the selection of priority regions took into account not only the socio-economic characteristics of poor people, but also the existence of favourable conditions for the development of rural microenterprises (e.g. the availability of rural finance).
23. With 47 per cent of the projects rated only moderately satisfactory and 33 per cent as unsatisfactory in terms of **effectiveness**, there is not much room for complacency, even though the majority of the projects (67 per cent) were rated satisfactory. One cause of limited effectiveness is the setting of overambitious project objectives without allocating commensurate human and financial resources to achieve them. One measure that is expected to contribute to better effectiveness is the introduction of the new approval format for projects adopted by the Executive Board in September 2006. One aim of the new format is to contribute to defining more realistic project objectives and a results framework that will allow more effective tracking of progress against indicators and targets.
24. Another important finding of the ARRI report concerns 'mid-term' reviews – which are important instruments for better effectiveness. Unfortunately, they are often undertaken late in project implementation. For example, the mid-term review in the Niger project took place very late, only one year before the operation was actually closed. Moreover, the examples of Peru and Colombia, as compared with the projects in the Niger and Ethiopia, illustrate that effectiveness is more likely to be achieved within a supportive and stable institutional and policy context.
25. Another factor leading to weak effectiveness – noted in the Evaluation of IFAD's Regional Strategy in Asia and the Pacific (EVEREST) – is that programme and project cycle management has largely been characterized by a series of compartmentalized processes, especially between design and implementation, which among other issues limits continuity and ownership.<sup>18</sup> However, the December 2006 approval by the Executive Board of the IFAD Policy on Supervision and Implementation Support<sup>19</sup> should ensure better continuity between the design and implementation phases.
26. Half the projects reviewed experienced problems with the management of rural finance components. Significant delays in implementation should have resulted in a revalidation and adjustment of objectives and operational plans. For example, the mid-term review of the Philippine project identified the need for a redesign of the rural finance component, and yet resolution of this issue, which could have led to enhanced effectiveness, remained unaddressed. In Romania, delivery of rural finance to poor people was constrained, among other reasons, by inadequate institutional outreach in rural areas. Efforts by IFAD and the cooperating institution to redesign the rural finance activities had limited effect, partly due to lack of experience in the country in providing rural finance to IFAD target groups.

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<sup>18</sup> In the past, for example, design was considered a distinct phase to which IFAD, primarily, devoted a relatively large amount of resources and attention, partly because of the Fund's limited involvement in implementation. At the same time, the role of governments and other partners at the country level was less prominent in design, even though they had (and have) the prime responsibility for implementation. The EVEREST evaluation argued that design and implementation should be seen as a continuous process, benefiting from the involvement of all major partners throughout the project cycle in order to ensure the desired results at the end of the process.

<sup>19</sup> See document EB 2006/89/R.4/Rev.1.

27. As in the past, it is difficult to assess **efficiency** because of limited data availability and the complexity of assessing non-physical outputs such as empowerment, capacity-building and participation of rural poor people in development activities. However, in spite of the limitations, concerted efforts are being made to ensure that each evaluation undertakes a systematic efficiency analysis. In the 2006 evaluations, 73 per cent of the projects were satisfactory overall in terms of efficiency. But a sizable number (47 per cent) were rated only moderately satisfactory, while 27 per cent were rated unsatisfactory. Thus, here, as well, there is room for further enhancement of IFAD's performance.
28. The Colombia project – rated highly efficient – witnessed large cost savings. During implementation, it allowed microenterprises to use competitive bidding procedures in contracting service providers, instead of having an interministerial committee select training and technical assistance proposals formulated by pre-identified service providers. This avoided the financing of low-priority activities and reduced administrative costs. It also underlined the need, in the design phase, to carefully consider complementarities among the roles and responsibilities of the public sector, private sector and civil society.
29. In spite of the aforementioned, microlending did not reach the poorest people in the Colombia project. There may be a cost in terms of 'efficiency' if the poorest are to be reached. Trade-offs between cost-savings and reaching this group should be explicitly analysed at design and implementation stages.
30. In Brazil, the costs of some activities (e.g. construction of roads or cisterns) were higher than average for a variety of reasons, including inappropriate choice of technology. In more recent projects, these were reduced by encouraging a wider involvement of contractors from both the private sector and NGOs. Finally, the IFAD Rural Finance Policy evaluation and others reveal that more can be done in future evaluations to assess the performance of rural finance components through the use of standard financial performance indicators, such as default rates and operating cost factors.
31. Combining the ratings for relevance, effectiveness and efficiency produces an overall rating for **project performance**. Table 3 shows the results of this analysis, which illustrates that based on the 2006 evaluations, 80 per cent of projects performed satisfactorily, whereas 20 per cent did not.

## **B. Impact on rural poverty**

32. Impact on rural poverty is assessed using nine impact domains,<sup>20</sup> as shown in figure 1. This report has made a special effort to underline the reasons contributing to performance in the various impact domains, with a view to generating lessons learned and determining possible remedial actions to enhance IFAD's performance in specific domains. Rather than presenting a comprehensive synthesis of performance and learning across each and every impact domain, the focus has been on 'outliers', which are those domains demonstrating either very good or very poor performance. Outlier analysis is generally considered a useful approach towards an understanding of the causes of good or poor performance.

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<sup>20</sup> Physical assets, financial assets, human assets, social capital and empowerment, food security, agricultural productivity, the environment and common property resources, institutions and services, and markets. Changes in income are normally assessed during determination of project effectiveness, as increases in income are often part of the main stated objectives of IFAD-funded projects and programmes. Such changes would also be captured under the food security and financial assets impact domains. OE undertakes primary research as required, for example in the form of statistical surveys and/or participatory rural appraisals, in order to gain a more accurate understanding of impact on income.

Table 3  
Project performance

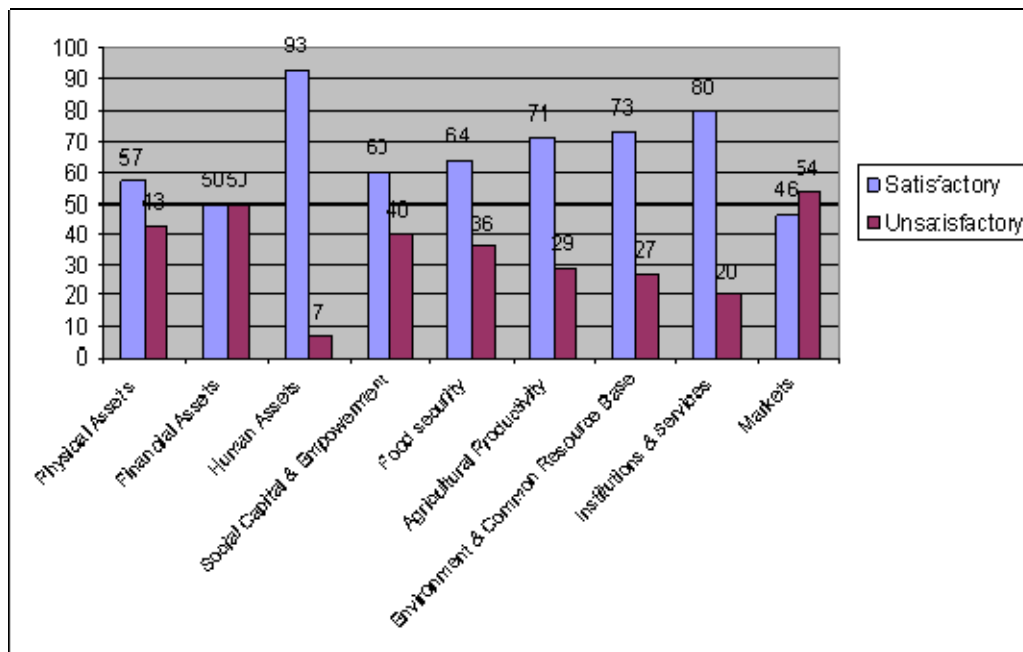
<i>Rating</i>	<i>Total sample 2006 (percentage)</i>
Highly satisfactory	7
Satisfactory	33
Moderately satisfactory	40
<b>Total: satisfactory</b>	<b>80</b>
Moderately unsatisfactory	20
Unsatisfactory	-
Highly unsatisfactory	-
<b>Total: unsatisfactory</b>	<b>20</b>

33. The evaluations in 2006 found that projects were particularly satisfactory in two impact domains, namely **human assets** (93 per cent satisfactory) and **institutions and services** (80 per cent satisfactory). In the case of human assets, of the 15 projects evaluated in 2006, two cases – Colombia and Peru – were rated highly successful. Eighty per cent were found to be satisfactory or moderately satisfactory. While impact in this domain was only classified as unsatisfactory in one project (Romania), 60 per cent of the projects were rated only moderately satisfactory in terms of impact on human assets.
34. In Georgia, the more than 2,000 loans provided by the project were used by beneficiaries also for consumption and emergency purposes – including health and education services. The Colombia project was especially satisfactory in building human assets, in particular by empowering microentrepreneurs to run their businesses on more-productive managerial and commercial terms. A rapid assessment survey undertaken as part of the Tanzanian evaluation revealed that the project facilitated access to knowledge of improved agricultural technologies, which ultimately contributed to better irrigation management.
35. Some of the projects evaluated in 2006 (e.g. in Ethiopia, Mali and the Philippines) used training as a means of building human capacity. However, it was often not well targeted to rural poor people. In the Philippines project, training for farmers in diversified cropping and other farm management processes was often limited to village leaders, thus reducing the impact it could have had on production systems within communities at large. In the Niger, training was conducted at a high cost for a small group of relatively more prosperous farmers with stable access to irrigated land. Moreover, training in specific skills development and social and water conservation techniques were not adequately adapted to the capability and needs of beneficiaries.
36. The sustainability of the training was in doubt in 50 per cent of the cases due to a lack of follow-up and replicability. In Mali, functional literacy training – which is not an area of specialization of IFAD – resulted in the construction of a large number of literacy centres. Today, however, they remain greatly underused, partly due to the unavailability of teachers. There is scope for a more detailed analysis of training as a means of improving human assets in future evaluations.



Figure 1

## Rural poverty impacts – percentage satisfactory and unsatisfactory (2006)



37. Sixty-four per cent of the projects evaluated in 2006 demonstrated satisfactory ratings in terms of improving **food security**. The improvement is linked to increases in food production and income, an improvement in diet and availability of information on nutrition. In Morocco, the positive impact on food security from diversification and intensification of agriculture was clearly evident in a comparative study of project beneficiaries and a control group. The Brazil CPE demonstrated that enhancements were achieved in food security, inter alia, due to more reliable access to water, which also led to decreases in animal mortality.
38. In Peru, increased food production was devoted to consumption and led to a better and broadened diet, particularly for children. In the Philippines, where farming is not at a subsistence level, modest impacts were achieved, in which infrastructure investments helped the production and marketing of food products. In the United Republic of Tanzania, achievements in food security through greater agricultural production were high, largely due to better irrigation and extension services.
39. In many instances, however, it was not possible to measure the impact on food security, due to information gaps and a lack of monitoring indicators at the project level. These deficiencies in monitoring and evaluation (M&E) systems need to be overcome if IFAD is to be able to report better results in this pivotal domain (which is an overarching goal of the IFAD Strategic Framework 2007-2010). M&E issues aside, it remains a concern that impact in the critical domain of food security – which reflects IFAD's commitment to reduce global hunger through the related Millennium Development Goals (MDGs) – has not generally been better.
40. Two weak impact domains in the 2006 sample were **financial assets** (50 per cent satisfactory) and **markets** (46 per cent satisfactory). No cases of successful or highly successful impacts on financial assets were reported this year. Moderate success was found in four projects. In one of these – Georgia – project loans enabled new forms of income generation or reinvestment in stagnated businesses, with income increases noted. However, no increase in household capital or goods was found.
41. Many design and implementation issues affecting rural financial services were identified this year. One of the main criticisms – noted in four of the evaluations – was that the rural financial mechanisms chosen were not suited to the local context. In Ethiopia, it was expected that service cooperatives would facilitate the

provision of sustainable services to members. However, upon evaluation many cooperatives were found to be poorly functioning or bankrupt. In Mali, rural finance methods were not suited to the local context, due, among other causes, to lack of appropriate expertise within both project management units and partner institutions. The limited availability of rural finance was thus a constraint on achieving even better results from the various microprojects promoted in the country programme (e.g. paddy development). Weak rural finance design was also criticized in the CPE for Morocco.

42. There also appears to be limited application of prior experience or lessons learned. For example, there appears to have been little coordination between a successful nationwide microenterprise finance project in the Philippines,<sup>21</sup> funded by IFAD and the Asian Development Bank (AsDB) and the Cordillera Highland Agriculture Resource Management Project evaluated in 2006 in the same country. Moreover, the evaluation of the IFAD Rural Finance Policy and the Romania project evaluation found that some of their critical findings coincided with those already underlined during IFAD's internal project design review processes. However, such concerns had not been adequately addressed by the time of approval, thus contributing to reduced effectiveness in a number of IFAD-funded rural finance projects.
43. The Rural Finance Policy evaluation also found that while IFAD has been a leader in terms of the quantity of approved loans for rural finance, its performance as measured by the sustainability of partner financial institutions has been at the lower end of the spectrum of donor agency effectiveness. The evaluation noted that the policy meets best practice standards in some areas, notably sustainability, and project designs are also increasingly meeting these standards. However, challenges remain in implementation due to systemic weaknesses in project cycle management, such as the limited although improving quality assurance mechanisms, insufficient technical expertise within IFAD in rural finance and IFAD's focus on lending to governments (rather than directly to rural finance institutions).
44. Given its importance to agricultural and rural development, impact on markets was first assessed as a distinct impact domain in the OE evaluations conducted in 2006.<sup>22</sup> Before that, market access and related issues were covered under the relevant impact domains (e.g. physical assets, institutions and services, and so on). The relatively poor performance in this impact domain bears out the findings of previous ARRI reports. Fifty-four per cent of projects in the 2006 sample were rated unsatisfactory in terms of promoting access to markets. Most positive impacts on market access were generally due to improvements in road access (Ethiopia, Mali, the Philippines and the United Republic of Tanzania) or in market information (Peru and the United Republic of Tanzania), but also in some cases to better access to this information.
45. However, in half the projects and programmes evaluated, the issue of markets was either omitted from the design (Georgia and the Niger) or dealt with inadequately (Mali and the Philippines). In Brazil, for example, marketing was mostly not considered in the country strategic opportunities paper (COSOP), even though there have been some sporadic initiatives in recent operations (e.g. support to the development of marketing cooperatives to facilitate access of project producers to output markets). In the Niger project, the importance of improving access to inputs and markets was known from the evaluation of the first phase, but was still not addressed in the second. Marketing problems continued to be a disincentive for investments in soil fertility conservation and contributed to the gradual abandonment of irrigation investments. In Mali, marketing interventions were too timid or piecemeal to have a lasting impact and reflected an excessive production orientation in project design. A stress on food production led to insufficient attention to issues of either pre-production (e.g. credit and inputs) or post-production (e.g. agroprocessing and marketing).

<sup>21</sup> The Rural Micro-enterprise Finance Project, evaluated by OE in 2002/2003.

<sup>22</sup> The improvement of markets is one of the six strategic objectives of the IFAD Strategic Framework 2007-2010.

46. That said, it is fair to note that market issues have received added attention in IFAD strategies and operations in recent years. For example, promotion of transparent and competitive agricultural inputs and produce markets is a key objective of the current Strategic Framework. Similarly, promoting better access to markets is a strategic thrust of the 2002 regional strategies for Eastern and Southern Africa and Latin America and the Caribbean. Moreover, a number of operations devoted mainly to enhancing marketing opportunities for rural poor people are now being implemented.<sup>23</sup>

### C. Overall rural poverty impact

47. In the 2006 evaluations, 80 per cent of the projects rated were considered satisfactory with respect to overall **rural poverty impact** (table 4).<sup>24</sup> This satisfactory performance must be qualified by the relatively high percentage of projects (47 per cent) found to be only moderately satisfactory. Twenty per cent were moderately unsatisfactory. This underlines the need for continuous efforts to improve the overall rural poverty impact of IFAD operations.

Table 4  
Overall rural poverty impact, 2006

<i>Rating</i>	<i>Total sample (percentage)</i>
Highly satisfactory	-
Satisfactory	33
Moderately satisfactory	47
<b>Total: satisfactory</b>	<b>80</b>
Moderately unsatisfactory	20
Unsatisfactory	-
Highly unsatisfactory	-
<b>Total: unsatisfactory</b>	<b>20</b>

48. With regard to rural poverty impact, gains in Peru seem due in part to the relatively stable institutional and economic policy context, as well as to a strong focus on implementation support, learning, innovation and poverty targeting. This has to a certain degree been facilitated by the work of IFAD's country programme manager (CPM) for Peru, who has been based in the country for some 10 years. In fact, for similar reasons, evaluations by OE in recent years of the performance and impact of other IFAD-funded projects in the country have also been favourable.<sup>25</sup>
49. Based on the experience in Georgia, there is a need for IFAD to understand more clearly the links between poverty and access to land and credit, and to integrate this understanding into its project cycle management. There also needs to be more understanding of the multidimensional nature of poverty, which requires that social and economic challenges be addressed in a complementary manner.
50. Most evaluations underline that impact is closely connected to a high degree of beneficiary participation, empowerment and ownership. The best performance in this area was noted in the Colombia project, where significant attention was

<sup>23</sup> Examples would be the Agricultural Marketing Systems Development Programme in the United Republic of Tanzania (approved in December 2001) and the Bangladesh Market Infrastructure Development Project in Charland Regions (December 2005).

<sup>24</sup> Overall rural poverty impact is calculated by averaging the results achieved under the various impact domains.

<sup>25</sup> For example, the Management of Natural Resources in the Southern Highlands Project (evaluated in 2002) and the 2004 thematic evaluation on Promotion of Local Knowledge and Innovations in Peru.

devoted to transferring decision-making to associations of rural microenterprises, for example in terms of selecting and contracting services. The lowest performance in this area was noted in projects evaluated in Ethiopia, Mali and Romania, where beneficiaries were not involved in all critical stages of design and implementation.

51. In the Niger, even though the project evaluated was one of the largest in the country, its impact was limited by poor project design and implementation, leading to constraints on effectiveness, lack of an appropriate strategy to reduce vulnerability among target groups, and weak implementation support.

#### D. Overarching factors

52. As mentioned in the Introduction, the two overarching factors of sustainability and innovation are dealt with as special issues in this year's ARRI report. This subsection provides a summary of the findings of the 2006 evaluations as background to the more detailed discussion that follows in section VI.
53. Forty-seven per cent of the overall 2006 sample was rated unsatisfactory for **sustainability** (table 5), while 33 per cent of the projects were just above the line and rated moderately satisfactory. This continues to be a worrisome finding, given the centrality of sustainability in the overall performance of IFAD operations, which has been highlighted by previous ARRI reports as well. The 2006 evaluations confirm that the limited sustainability of IFAD operations requires concerted attention. In this regard, three key challenges can be identified. First, it was reported that sustainability was given little attention during project design, for example the need to develop exit strategies was not emphasized or considered. Second, in a third of the evaluations, failure to build sufficient capacity within key institutions involved in implementation and post-project activities (e.g. government agencies and community-based organizations) is a major determinant affecting sustainability. Third, evaluations also cited poor maintenance, or a lack of consideration for maintenance of project investments (e.g. infrastructure developed or soil conservation activities) as a core underlying factor. In this regard, evaluations noted that projects often introduce technologies or promote investments with ambitious quality standards, and implementing agencies and the communities do not have the necessary resources or know-how to maintain them. In the Philippines, for example, the municipal government units do not have the capability (especially in terms of recurrent resources) to maintain the facilities established, and thus there is no routine or preventive maintenance. Moreover, the target-driven nature of the project led participants to focus on physical and financial outputs, rather than on ensuring the more profound systemic development changes (e.g. building ownership) that are at the core of ensuring sustainability.

Table 5  
**Sustainability and innovation, 2006**

<i>Rating</i>	<i>Total sample (percentage)</i>	
	<i>Sustainability</i>	<i>Innovation</i>
Highly satisfactory	-	-
Satisfactory	20	40
Moderately satisfactory	33	27
<b>Total: satisfactory</b>	<b>53</b>	<b>67</b>
Moderately unsatisfactory	27	27
Unsatisfactory	20	7
Highly unsatisfactory	-	-
<b>Total: unsatisfactory</b>	<b>47</b>	<b>33</b>

54. The projects in Brazil, Colombia and Peru that were rated well on sustainability were able to transfer decision-making successfully to lower administrative levels,

included investment in productive assets, had successful financial services components and promoted institutional ownership of project activities.

55. The capability to promote **innovation** continues to be regarded as central to IFAD's mandate.<sup>26</sup> The reasonable record observed in previous years continued in 2006, with 67 per cent of the total sample being considered satisfactory with respect to innovation (see table 5).
56. The 2006 sample contains some positive examples of innovation. In Georgia, the land registration model that was piloted is now being used as the basis for a national system. In Peru, specific attention was devoted to documenting innovative examples and experiences from other IFAD-funded projects in the country and organizing platforms for exchanging lessons learned on such issues. In the United Republic of Tanzania, the promotion of participatory irrigation planning approaches ensured that incremental water was available through the diversion of water from rivers to irrigation fields, thus supplementing traditional modes of water-harvesting. Some of the main innovations in the operations evaluated in 2006 include: transfer of decision-making power to beneficiaries; promotion of cost-sharing arrangements in project activities (e.g. in the construction of village water points), which fostered ownership at the community level; competitive resource allocation processes; and empowerment of women through the provision of identity documents, allowing them, among other changes, to access credit from formal financial institutions.
57. There are some examples of replication and scaling up. For example, the Government of the United Republic of Tanzania has adopted participatory planning approaches as a key concept in the development of irrigation schemes in their new national irrigation policy. In Colombia, empowering and supporting rural microenterprises is now a key priority of the Government, which sees them as an important instrument in their own rural poverty reduction efforts. However, despite this, the CPEs contributing to this report found that, in general, the promotion of innovations has generally been ad hoc. That is, there do not appear to be proactive efforts, linkages and adequate resources allocated towards knowledge management, policy dialogue and partnership-building – all essential in identifying wider opportunities for scaling up and replicating successfully tested innovations promoted by IFAD. Similarly, the synergies created between grants – essential in fostering technological and other forms of innovation – and loan-funded projects are not systematic.

## E. Performance of partners

58. Overall, the **performance of IFAD** as a partner was satisfactory in 60 per cent of the projects evaluated in 2006, whereas in 40 per cent the Fund's performance was found to be unsatisfactory (table 6). The proportion of satisfactory ratings must be further qualified by the fact that over one third of the projects were rated just moderately satisfactory. Of the 15 projects rated in this report, IFAD's performance was best in Colombia and Peru (the project in Peru was directly supervised by IFAD). It is useful to recall that the CPM for both these countries is out-posted in Peru. Similarly, the Tanzanian<sup>27</sup> project and the only project directly supervised in Brazil also had high ratings for IFAD performance. While good performance cannot be attributed only to IFAD country presence and direct supervision and implementation-support activities, these findings are consistent with the results of the recent evaluation of the Field Presence Pilot Programme and, previously, the evaluation of the Direct Supervision Pilot Programme (2005).
59. From a programme management perspective, key criticisms of IFAD's performance fall into the categories of project design and M&E. Moreover, the EVEREST evaluation and the three CPEs included in the present report reveal that, generally,

<sup>26</sup> An IFAD Innovation Strategy was approved by IFAD's Executive Board in September 2007 (document EB 2007/91/R.3/Rev.1).

<sup>27</sup> The United Republic of Tanzania was included in the Field Presence Pilot Programme.

IFAD's performance in non-project activities such as policy dialogue, knowledge management and partnership-building, including donor coordination, has not been good. This is partly due to the limited allocation of resources, time and attention to such non-project activities.

60. A number of 2006 evaluations contain criticisms of project design. These include weak poverty targeting (e.g. Romania); dispersed activities, in terms of both geographic coverage of projects in a country programme and within specific projects (Ethiopia and Mali); and overambitious objectives (Georgia and the Niger, in particular). The criticisms of M&E focus on the design of heavy systems with numerous indicators and reporting requirements, inadequate levels of human resources to effectively perform the required functions, the late undertaking of baseline surveys, and limited attention by implementation agencies to using M&E results to guide project management.
61. While project design is an area of concern, it must be acknowledged that efforts are underway to improve the quality of the portfolio at entry. In this regard, in addition to strengthening the existing internal quality assurance mechanisms within PMD, an arms-length quality assurance system has been developed under the Action Plan, which will assess project quality at entry.<sup>28</sup>

Table 6  
**Partner performance**  
(percentage)

<i>Rating</i>	<i>IFAD</i>	<i>Cooperating institutions</i>	<i>Government and its agencies</i>
Highly satisfactory	13	-	-
Satisfactory	13	25	13
Moderately satisfactory	33	42	53
<b>Total: satisfactory</b>	<b>60</b>	<b>67</b>	<b>67</b>
Moderately unsatisfactory	40	33	33
Unsatisfactory	-	-	-
Highly unsatisfactory	-	-	-
<b>Total: unsatisfactory</b>	<b>40</b>	<b>33</b>	<b>33</b>

62. In 67 per cent of the 2006 evaluations, the **performance of cooperating institutions** was rated satisfactory.<sup>29</sup> The United Nations Office for Project Services (UNOPS) was a cooperating institution in seven of the 15 projects rated in 2006, three were part of IFAD's Direct Supervision Pilot Programme; two were supervised by the West African Development Bank; and one each by the Andean Development Corporation (CAF), AsDB and the World Bank. The overall performance of UNOPS was considered satisfactory in four of these projects (in Ethiopia, Morocco, the Niger and the United Republic of Tanzania), and moderately unsatisfactory in three (in Brazil, Morocco and Romania). These ratings highlight that, overall, there is scope for further improvement in the work of cooperating institutions.
63. The performance of CAF in Colombia was good. It made 16 field visits to the project throughout the implementation period, actively managed project issues and carried out all supervisory activities in a participatory and conscientious manner. AsDB in the Philippines provided a very reliable supervisory function, although it was difficult for IFAD to participate in supervision activities due to difficulties in coordination with AsDB. In those projects where the performance of the cooperating institution was unsatisfactory, a number of common features were noted, such as the absence of adequate technical expertise on missions and limited coverage of emerging results and impact in supervision reports.

<sup>28</sup> The arms-length quality assurance system will be set up in the second half of 2007 under the responsibility of the Vice-President – see footnote 4 of IFAD's Results Measurement Framework (document EB 2007/91/R.2).

<sup>29</sup> The three projects in which IFAD provided direct supervision and implementation support are not included in this analysis.

64. As in previous years, **government performance** was generally satisfactory in 67 per cent of the projects evaluated. However, there is no room for complacency, given the relatively high levels of moderately satisfactory (over 50 per cent) and moderately unsatisfactory (33 per cent) project ratings. This implies that there is scope for improvement in the work of governments. In Peru, local government was involved closely in the design and evaluation of the project. The Government of the United Republic of Tanzania exemplified outstanding performance in its Programme Management Unit and M&E activities (a rare mention of effective M&E). In Morocco, although performance was generally satisfactory, it varied from one government agency to another and also depended on the subsector focus of the operation.
65. A key lesson from the evaluations is that it can take time to find the correct institutional location for IFAD-funded projects in the government apparatus. But this is time well spent and is crucial to getting the correct level of visibility and timely finance, where appropriate, and for building sustainable partnerships. One issue that came up in a few evaluations was delayed provision of counterpart funds (especially by state or provincial authorities), leading to delays in project implementation.

## F. Overall achievement

66. Overall achievement reflects the combined assessment of project performance (relevance, effectiveness and efficiency), rural poverty impact, sustainability and innovation. In this regard, as illustrated in table 7, 73 per cent of projects evaluated in 2006 were rated moderately satisfactory or better,<sup>30</sup> and about 27 per cent of projects evaluated were found to be moderately unsatisfactory.

Table 7  
Overall achievement

<i>Rating</i>	<i>Total sample 2006 (percentage)</i>
Highly satisfactory	-
Satisfactory	20
Moderately satisfactory	53
<b>Total: satisfactory</b>	<b>73</b>
Moderately unsatisfactory	27
Unsatisfactory	-
Highly unsatisfactory	-
<b>Total: unsatisfactory</b>	<b>27</b>

<sup>30</sup> The performance of partners (i.e. IFAD, cooperating institutions and governments) is not included in the aforementioned calculation. Individual evaluations are not required to include an overall assessment of partner performance as a group because it is not appropriate to aggregate the performance of individual partners into one figure, given the diversity of functions performed by each of them in the project cycle.

#### Key points from the 2006 evaluations

- Performance is satisfactory in all evaluation criteria, but not in terms of **sustainability** and access to **markets**. However, apart from relevance, which is very good, there is scope for improving performance in other areas. This is the objective of a number of initiatives recently undertaken, or about to be so, under the Action Plan.
- Sustainability is low, requiring remedial actions. The lack of attention to developing exit strategies and limited institutional capacity were among the reasons for poor sustainability.
- Eighty percent of the projects evaluated revealed a satisfactory rating in terms of project performance, which is a composite of the evaluation criteria of relevance, effectiveness and efficiency.
- Similarly, 80 per cent of the projects had an overall satisfactory rural poverty impact, with the best impact obtained in the areas of human assets and institutions and services.
- Impact was weak in the areas of market access, financial assets and M&E activities.
- The promotion of innovation was by and large satisfactory, even though few examples were observed of the scaling up and replication of innovations promoted by IFAD.
- IFAD's performance was satisfactory in 60 per cent of the projects evaluated. Direct supervision and implementation support and IFAD country presence have contributed to better overall results on the ground. However, in several cases, project objectives were overambitious and poverty targeting weak.
- Cooperating institutions generally performed well, although there is scope for wider coverage of results in supervision reports. Similarly, government performance was also satisfactory, but delays in provision of counterpart funds affected implementation progress in a number of cases.

### G. Contribution to IFAD's strategic objectives and the MDGs

67. As in previous ARRI reports, the rural impact ratings have been regrouped according to the objectives of IFAD's Strategic Framework and the MDGs. This exercise is necessarily approximate, as the OE project evaluation methodology was not designed with this purpose in mind, and thus individual evaluations do not include analysis of these issues. Moreover, some objectives of the recent IFAD Strategic Framework may not be clearly reflected in the objectives of the projects evaluated by OE, which creates further difficulties in undertaking assessment of these terms. Similarly, limitations in the M&E systems of projects do not allow the ARRI report to indicate the magnitude of the achievements against the Strategic Framework objectives and the MDGs. Despite these methodological considerations, the ARRI report is able to provide some notion of how IFAD is performing in achieving its strategic objectives, as well as the contribution it makes to meeting selected MDGs.<sup>31</sup>
68. The current Strategic Framework was approved by the Executive Board in December 2006 and contains six objectives. Even though the projects evaluated in 2006 were designed before this framework was approved, it can be observed that these projects already embodied many of its objectives and principles of engagement (see paragraph 17). Table 8 presents the impact ratings for each of

<sup>31</sup> OE will review possible methods for covering these aspects in future evaluations, thus allowing for more accurate reporting in forthcoming ARRI reports.



IFAD's strategic objectives based on the ratings for 2006. Performance has been particularly satisfactory in achieving corporate objectives related to natural resources (65 per cent of the projects evaluated demonstrated satisfactory performance), improved agricultural technologies and effective production services (71 per cent), and local and national policy and programming processes (70 per cent), whereas performance in corporate objectives related to financial services, marketing and off-farm employment are not as strong.

Table 8  
**Project impact by IFAD's six strategic objectives**

<i>IFAD Strategic Framework 2007-2010 "...poor rural men and women have better and sustainable access to, and have developed the skills and organization they require to take advantage of:"</i>	<i>2006 satisfactory ratings (percentage)</i>
Objective 1: Natural resources (land and water)	65
Objective 2: Improved agricultural technologies and effective production services	71
Objective 3: A broad range of financial services	50
Objective 4: Transparent and competitive agricultural input and produce markets	53
Objective 5: Opportunities for rural off-farm employment and enterprise development	51
Objective 6: Local and national policy and programming processes	70

69. IFAD-supported projects make two types of contributions to the MDGs – direct and indirect. Neither is particularly easy to assess on the basis of the evaluation reports. For example, projects make a direct contribution to increasing household food security, improving sanitation conditions or reducing income poverty. These direct benefits can yield indirect benefits, such as improved school attendance or health. However, indirect impacts are often difficult to trace and attribute and thus might not have been reported accurately in evaluations.
70. In spite of the limitations outlined in paragraph 67, some indication of the contributions can nevertheless be derived by regrouping the impact domains according to the MDGs. One hundred per cent of the 2006 sample were moderately satisfactory or better in one or more of the domains that contribute to the MDGs. The most consistent contribution was made in the area of human assets. Achievements in this area contribute to the MDGs on education (MDG 2), reducing child mortality and maternal morbidity (MDGs 4 and 5), and combating disease (MDG 6). Eighty-seven per cent of the projects evaluated in 2006 were moderately successful or better in one or more domains that contributed to MDG 1, halving extreme poverty and hunger, which is a central part of IFAD's mandate. More than half the projects evaluated in 2006 had satisfactory contributions to MDG 7 (ensure environmental sustainability).

#### **IV. Selected issues raised by corporate-level and country programme evaluations**

71. Three CPEs and three corporate-level evaluations form part of the ARRI report. This section synthesizes some general findings of these evaluations.
72. The EVEREST evaluation found that portfolio performance and impact in Asia and the Pacific region have been good compared with the IFAD-wide ratings reported in previous ARRI reports. This lends weight to the assumption running through this report that the presence of sound institutions and favourable policy contexts provides a more conducive environment for change. The extensive involvement of high-quality NGOs and enhanced participation by women lead to greater effectiveness. These findings provide useful pointers for those looking for the best community development model for IFAD. Finally, the EVEREST evaluation team felt that better project implementation indicators were present in the region. This strengthens the case for improving M&E systems more widely.

73. On the negative side, concerns remain about targeting and sustainability. Overall weaknesses have been found in the building of strategic partnerships, mobilization of cofinancing and counterpart funds, promotion of innovations, policy dialogue and IFAD's participation in donor coordination and harmonization. The coherent articulation of IFAD's target group was found to be a key comparative advantage in the region by the EVEREST evaluation. However, difficulties with targeting mean that certain groups among rural poor people are excluded from projects. Elite capture and/or a lack of inclusive development are likely. These issues are echoed in project evaluations from 2006 and previous years.
74. All three CPEs noted that COSOPs were not updated despite significant changes in the country context. All three also noted a fairly limited level of policy dialogue. In the case of Brazil, an emphasis on policy dialogue in the COSOP was not matched by the identification of policy issues or ways to carry out this dialogue in practice. Finally, all three CPEs were critical of M&E at project and programme levels. In September 2006, the IFAD Executive Board adopted a new results-based COSOP under the Action Plan. This instrument serves both the Fund's strategic positioning in a given country and the management of and accountability for results. Among other issues, the introduction of annual and mid-term reviews for new-generation COSOPs are likely to make them more dynamic instruments in defining IFAD's engagement in a country.
75. Limited knowledge management has emerged as an issue in a number of CPEs, including that of Brazil. The reasons include insufficient allocation of resources for that purpose and the undertaking of ad hoc knowledge management initiatives that were not designed in an integrated manner or in pursuit of a common objective. The introduction of a knowledge management strategy in April 2007 is expected to provide an overarching framework for improving the Fund's future knowledge management activities.

## V. Findings 2002-2006

76. This year's ARRI report presents an overview of the results of the 73 projects evaluated over the period 2002-2006<sup>32</sup> contained in previous reports. Although the three preceding reports have also done this, the analysis this year is undertaken on a much wider sample of projects evaluated. This enhances the reliability of the findings and highlights those systemic and recurrent issues that need priority attention by Management to further enhance the performance and impact of IFAD operations.
77. It is useful to underline that the results for 2002-2006 are based on consolidating the ratings already contained in the previous ARRI reports on evaluations conducted in the past 3-4 years – which all used the same evaluation methodology and evaluation criteria. Moreover, according to established practice, the individual evaluations and the ratings therein were discussed at the time with all concerned parties, including government authorities and PMD, and do not reflect any unknown or previously undisclosed findings or data.
78. The consolidated ratings for the 5-year period (2002-2006) are an average of the performance across each criterion – contained in IFAD's project evaluation methodology – already rated by OE in the preparation of previous ARRI reports. For example, the rural poverty impact of IFAD operations (table 10) reflects the average impact recorded by all individual project evaluations conducted in the period 2002-2006. This is different from the actual average impact of IFAD operations in the same period, which table 10 does not aim to convey, recognizing that impact may change during the period concerned.
79. As already mentioned in paragraph 7, the presentation of results covering more than one year is a feature adopted previously by other IFIs. For example, the World

<sup>32</sup> The evaluation functions of other IFIs, such as the World Bank and the Asian Development Bank, also undertake such block analysis in their annual reports corresponding to IFAD's ARRI report.

Bank's 2006 Annual Review of Development Effectiveness (ARDE), produced by the Bank's Independent Evaluation Group, includes consolidation of data by two periods, 1996-2000 and 2001-2005. AsDB's 2006 Annual Evaluation Review presents results by source of funding based on evaluation ratings of projects for the period 1970-1997, but also by decade (1970s and 1980s separately), as well as for the period 1990-1997.

## A. Project performance

80. As shown in table 9, 84 per cent of the projects were rated satisfactory for project performance (a combination of the ratings for relevance, effectiveness and efficiency). Ninety-six per cent were rated satisfactory for relevance, while 72 per cent were rated satisfactory for effectiveness and 66 per cent for efficiency.

Table 9

**Relevance, effectiveness and efficiency, 2002-2006<sup>a</sup>**  
(percentage)

<i>Evaluation criteria</i>	<i>Satisfactory (4-6)</i>	<i>Unsatisfactory (1-3)</i>
Relevance	96	4
Effectiveness	72	28
Efficiency	66	34
Project performance	84	16

<sup>a</sup> Relevance, effectiveness and efficiency are rated individually for each project. A separate rating for project performance is also generated by the evaluators of each project. Table 9 presents a summary of the *separate* ratings for relevance, effectiveness, efficiency and project performance. Thus the overall rating for project performance in this table is not the calculated average of the summary figures for relevance, effectiveness and efficiency. This note also applies to table 10. A detailed explanation is contained in annex V.

## B. Rural poverty impact

81. An average of 65 per cent of the projects were rated satisfactory for rural poverty impact, while more than a third were not. Projects were mostly satisfactory at increasing the physical assets of poor people: land, water, livestock, tools, equipment, infrastructure such as housing and domestic water tanks, and technology. Performance in building human assets was satisfactory in 70 per cent of the projects. With regard to human assets, evaluations (e.g. in Namibia and the United Republic of Tanzania) have demonstrated the useful contribution of the Belgian Survival Fund in promoting social development through focusing on access to domestic water supply, health and education in IFAD-funded projects and programmes.
82. Two weaker areas stand out. Almost half the projects were rated unsatisfactory in relation to the environment and common resource base, with 21 per cent rated unsatisfactory or highly unsatisfactory. Almost half the projects were also rated unsatisfactory in respect of institutions and services. Another weaker area was market improvement. The results are summarized in table 10.
83. Another issue that emerges from the analysis across the period 2002-2006 relates to gender mainstreaming and targeting. While it is clear that IFAD has played a more active role in these two important areas, and has gotten it right in places, it has not done so in some projects, with consequences for gender equity and rural poverty impact. In the case of gender, some of the projects evaluated in 2006 reveal the lack of a gender-differentiated approach in either implementation or monitoring. For example, in the Niger, the absence of specific targeting meant that the needs of the priority targets – women and young people – were not met by the rural finance component.

Table 10  
**Rural poverty impact, 2002-2006**  
 (percentage)

<i>Impact domains</i>	<i>Satisfactory (4-6)</i>	<i>Unsatisfactory (1-3)</i>
Physical assets	72	28
Financial assets	64	36
Food security	65	35
Environment and common resource base	52	48
Human assets	70	30
Social capital and empowerment	56	44
Agricultural productivity	59	41
Institutions and services	52	48
Markets	44	56
Rural poverty impact	65	35

84. Two overarching factors were rated in the 2002-2006 project evaluations: innovation and sustainability. The results are summarized in table 11. The performance is disappointing in terms of sustainability, which was the lowest of all the evaluation criteria. Over half the projects (55 per cent) were rated unsatisfactory in terms of sustainability. In this regard, a number of evaluations have noted the importance of promoting wider access to markets as one element in enhancing sustainability.<sup>33</sup> In any case, the low results for sustainability confirm the importance of addressing this area within IFAD on a priority basis.

Table 11  
**Overarching factors, 2002-2006**  
 (percentage)

<i>Overarching factors</i>	<i>Satisfactory (4-6)</i>	<i>Unsatisfactory (1-3)</i>
Innovation, replicability and scaling up	68	32
Sustainability	45	55

85. Performance in introducing innovations has generally been satisfactory. Innovations have been of a technical or institutional nature, but have also covered new approaches to rural poverty reduction. Examples of innovations promoted by IFAD can be found in paragraphs 56-57. There are other examples, as well, such as introduction of the concept of leasehold forestry in Nepal, which proved to be an effective alternative to community forestry and benefited poor people through direct transfer of land assets. Innovations have had several roots, including the Fund's own grant-funded activities and the adoption of promising local initiatives that are further developed and expanded through IFAD operations, based on ideas and new practices of rural poor people themselves.

<sup>33</sup> For example, the provision of better inputs and seeds in the United Republic of Tanzania has increased crop production, in some cases (banana) by 100 per cent. While this has contributed to improving household food security, it has not necessarily led to greater incomes due to limited opportunities for agroprocessing, storage and sale of produce. This in turn could jeopardize sustainability, as farmers may not be so enthusiastic about adopting better technologies.

### C. Partner performance

86. Sixty-one per cent of the projects were rated satisfactory overall in terms of partner performance (table 12), but almost 40 per cent were not. The performance of IFAD was rated satisfactory in only about half the projects.<sup>34</sup>

Table 12  
**Partner performance, 2002-2006**  
 (percentage)

	<i>Satisfactory (4-6)</i>	<i>Unsatisfactory (1-3)</i>
IFAD	51	49
Cooperating institutions	64	36
Government	67	33
Partner performance	61	39

### D. Overall achievement

87. The rating for overall achievement<sup>35</sup> is shown in table 13. Almost two thirds of the projects were rated satisfactory, while about one third were unsatisfactory.

Table 13  
**Overall achievement, 2002-2006**

<i>Rating</i>	<i>Percentage</i>
Highly satisfactory	4
Satisfactory	20
Moderately satisfactory	44
<b>Total: satisfactory</b>	<b>67</b>
Moderately unsatisfactory	29
Unsatisfactory	4
Highly unsatisfactory	0
<b>Total: unsatisfactory</b>	<b>33</b>

### E. Performance in different time periods

88. Table 14 provides an overview of four key evaluation criteria of the performance of IFAD operations across three periods, 2002-2003, 2004-2005 and 2006. However, for reasons outlined in paragraph 5, comparisons should be made with caution, especially given the changes in the sample of projects evaluated in each period. More reliable comparisons over different time periods will be feasible in the future, when the ARRI report will benefit from an increasing number of project evaluations. For this reason, it is proposed to include a similar presentation of data in future ARRI reports.

<sup>34</sup> The relatively lower performance of IFAD compared with cooperating institutions and governments may be partly explained by the fact that evaluators have been more comprehensive and, to some extent, somewhat more critical when analysing IFAD performance. The whole question of partner performance requires further reflection and will be reviewed by OE in consolidating its evaluation methodologies in 2008.

<sup>35</sup> See paragraph 66, which outlines the approach used in determining overall project achievement.

Table 14  
**Projects rated satisfactory**  
 (percentage)

<i>Evaluation criteria</i>	<i>2002-2003</i>	<i>2004-2005</i>	<i>2006</i>
Project performance	80	87	80
Rural poverty impact	55	64	80
Sustainability	45	41	53
Overall achievement	65	65	73

## F. Some proximate causes of performance

89. Using a number of indicators related to the countries covered by the ARRI report, this section makes an attempt to explain project performance. More specifically, information on the country income group,<sup>36</sup> the World Bank's country policy and institutional assessments (CPIAs),<sup>37</sup> and IFAD's rural development sector (RDS) country score as used in the performance-based allocation system (PBAS)<sup>38</sup> were collected and used in the analysis leading up to the findings below, which OE proposes to submit for further analysis and discussion in next year's report.
90. Two main findings have emerged from the analysis:
- **context** is a major determinant of project success; and
  - **more recent projects** tend to be more satisfactory.
91. Context appears to be a major determinant of project success, whichever way context and success are measured. Overall project achievement is lower in low-income countries, as compared with lower-middle-income countries; in countries in the lower three CPIA quintiles compared with those in the top two quintiles; and in countries with lower RDS scores.
92. The importance of context is not a new or surprising finding. The fact that projects tend to be more successful in better and more supportive policy and institutional contexts makes intuitive sense. The latest World Bank ARDE<sup>39</sup> came to a similar conclusion: both economic management and policies for social inclusion positively affect the likelihood of a satisfactory project outcome. That said, the complexity of the context at the design stage or its evolution during implementation cannot be the rationale for less positive results at project completion. It has to be assumed that the project design teams factor in context issues up front (such as institutional capabilities, economic policies, extent of decentralization, etc.), and that project strategy is fine-tuned as required during implementation to respond to major changes in context.
93. Table 15 provides an overview of overall project achievement according to three key parameters related to country context: income level, CPIA classification and RDS score.
94. The ARRI analysis reveals that there appears to be over-optimism at entry in terms of project objectives, which do not sufficiently take into account the difficulties inherent in a given country context. Moreover, the specificity of regional and/or project contexts within a country also needs to be considered, as there are likely to be variations – for example in institutional capacities and agroecological conditions – in different geographic areas of the same country. For example, the EVEREST evaluation concluded that some projects did not adequately take into consideration the extremely remote location of the project area and the resulting difficulties, for example in project execution and supervision and implementation support (e.g.

<sup>36</sup> The classification of countries based on income follows the World Bank list of economies (July 2007) in the World Development Indicators Database.

<sup>37</sup> The CPIA assesses the quality of a country's present policy and institutional framework.

<sup>38</sup> See IFAD PBAS: Rural Sector Performance Assessment 2005-2006.

<sup>39</sup> Independent Evaluation Group, World Bank, *Annual Review of Development Effectiveness: Getting Results* (Washington, D.C.: 2006).

East Kalimantan<sup>40</sup> in Indonesia). Another example is the decision to locate the project coordination unit of the Mozambique Niassa Agricultural Development Project initially in the capital, despite the need to ensure proactive coordination at the Niassa district level among the departments and partners involved in project execution.

Table 15  
**Overall achievement by country context, 2002-2006**

	Overall achievement (percentage)	
	Satisfactory (4-6)	Unsatisfactory (1-3)
<b>Income level</b>		
Low income (US\$905 or less)	55	45
Lower middle income (US\$906-US\$3 595)	81	19
Upper middle income (US\$3 596-US\$11 115)	88	12
<b>CPIA classification</b>		
CPIA <sup>a</sup> quintile 3-5	31	69
CPIA quintile 1-2	81	19
Non-IDA countries <sup>b</sup>	83	17
<b>RDS score</b>		
RDS score 3.75 or below <sup>c</sup>	33	67
RDS score 3.76-4	58	42
RDS score > 4	85	15

<sup>a</sup> Countries are classified into five CPIA quintiles, according to four main criteria: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public-sector management and institutions. Countries with the best CPIA rating are in the 1<sup>st</sup> quintile and those with the worst in the 5<sup>th</sup>.

<sup>b</sup> The World Bank only classifies the 80 poorest countries – International Development Association (IDA) borrowing countries – in the five CPIA quintiles. The figures for 'non-IDA countries' are based on the overall project achievement calculated in the ARRI report. For IFAD, these are countries borrowing on ordinary terms.

<sup>c</sup> Each country has an average rural-sector performance assessment score, prepared by IFAD Management. A six-point rating scale is used, with 6 being the highest score possible and 1 the lowest. The average score is based on individual scores across 12 parameters (e.g. policy and legal framework for rural organizations, access to land, dialogue between government and rural organizations, etc.). The rural-sector performance assessment score is used in developing the country score and country allocation under the PBAS.

95. Evaluations also point towards inadequate approaches being pursued in specific country contexts. For example, the CPEs in Brazil, Mexico and, to some extent, in Morocco underline that the requirements of middle-income countries are significantly different from the priorities of low-income countries. The interest of middle-income countries in engaging with IFAD is often motivated by the desire to acquire information on successful innovative practices in and knowledge of agricultural and rural development activities, as well as the flexibility and low transaction costs of the loans provided by IFAD, rather than accessing financial resources from other sources. These CPEs are pointers to the fact that IFAD has tended to use a 'one size fits all' approach, undertaking activities in middle-income countries with strategies and approaches similar to those in low-income countries.

<sup>40</sup> This project has since been cancelled by IFAD for the above-mentioned and related reasons.

96. As for middle-income countries, it would seem that a specific approach is warranted for IFAD's engagement in these countries, especially given that the organization has financed operations in 22 middle-income countries<sup>41</sup> for a total loan amount of some US\$992 million and project costs of US\$2.5 billion since the beginning of IFAD operations.<sup>42</sup> Further, questions arise as to why IFAD has not invested adequately in some of these countries, especially given the large numbers of rural poor living there (e.g. Brazil<sup>43</sup> and Mexico<sup>44</sup>) compared with other countries with much smaller numbers of rural poor people. Finally, the issue of middle-income countries was the topic of a recent comprehensive evaluation by the Independent Evaluation Group of the World Bank on middle-income countries,<sup>45</sup> which came to a similar conclusion.
97. These questions are important to IFAD in the context of its programme and operations in fragile and post-conflict countries, given that IFAD is currently financing operations in 31 of the 37 countries defined as fragile by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD/DAC)<sup>46</sup> for a total loan amount of US\$1.9 billion and project costs of US\$4.87 billion since the beginning of IFAD operations.<sup>47</sup>
98. Table 16 illustrates that projects that became effective in the last 10 years are more satisfactory than older-generation projects. This is a good sign, as it suggests that IFAD is able to learn from past lessons and experiences. There are a number of possible explanations: (i) greater attention to and involvement of IFAD staff in supervision and implementation support; (ii) establishment of country presence arrangements (including proxy field presence); (iii) the introduction of COSOPs around 1996/1997 as guiding frameworks for IFAD operations. The development of numerous corporate policies and strategies (including the 2002 regional strategies) also provided clearer strategic orientation, facilitating prioritization of efforts and allocation of resources; (iv) generally greater emphasis on results and impact management; and (v) gradual improvement in internal quality assurance processes and self-evaluation systems.

Table 16  
**Overall achievement by period of project effectiveness**  
 (percentage)

<i>Project effectiveness date</i>	<i>Overall achievement 2002-2006</i>	
	<i>Satisfactory (4-6)</i>	<i>Unsatisfactory (1-3)</i>
Up to 31 December 1996	50	50
After 31 December 1996	83	17

99. There are some external factors related to borrowing countries that can also explain the better performance of more recent projects. These include generally more-conducive framework conditions in many countries, with wider involvement of the private sector, better governance including decentralization, and overall enhanced national capacities in recent years.
100. However, the aforementioned hypothesis that recent projects are more effective than older ones is not consistent with the fact that projects completed in 2005-2006 do not on average demonstrate more satisfactory achievement than projects completed in 2001-2004. This could be partly explained by the fact that a

<sup>41</sup> Defined according to the World Bank list of economies, July 2007.

<sup>42</sup> The loan amount of currently ongoing IFAD operations (including not signed and not yet effective) in middle-income countries is US\$438 million for total project costs of US\$825 million.

<sup>43</sup> For example, 30 per cent of the total rural poor population in Latin America and the Caribbean lives in Brazil.

<sup>44</sup> About 25 per cent of the country's more than 100 million people live in rural areas.

<sup>45</sup> World Bank, *Development Results in Middle-Income Countries: An Evaluation of the World Bank's Support* (Washington, D.C.: 2007).

<sup>46</sup> OECD/DAC, *Monitoring Resource Flows to Fragile States: 2006 Report* (Paris: 2006).

<sup>47</sup> The loan amount of ongoing projects (including not signed and not yet effective) is equal to US\$787 million for total project costs of US\$1.4 billion.



greater proportion of the projects completed in 2005-2006 were in low-income countries and generally in countries with a more difficult context than those closing in 2001-2004. In any case, this topic warrants additional analysis to develop a better understanding of the correlation between project achievement, on the one hand, and effectiveness and closing dates on the other.

## G. Internal and external benchmarking

101. This year's ARRI report benchmarks IFAD's performance internally against its targets (table 17) and externally against evaluation results of selected other IFIs (table 18).
102. Benchmarking can serve as an important incentive to improve development effectiveness. However, there are some challenges related to benchmarking that need to be recognized, and which draw attention to the importance of interpreting results with caution. For instance, one obstacle to meaningful benchmarking is finding comparable data, given that the evaluation policies and methodologies of each organization differ to varying degrees, in spite of efforts by the international evaluation community to promote harmonization in this area. However, there are also many similarities between IFAD and other IFIs, not least the need to demonstrate results, manage risks and work in alignment with country-led development frameworks. They also utilize similar development instruments, including loans, grants and policy dialogue.
103. Regarding the lack of data, results from other development organizations are not easily available across the same time frames. Moreover, while the comparisons are made using broadly similar evaluation methodologies and criteria, the specific questions posed by each institution in assessing performance across the evaluation criteria are not known. Hence, results should be interpreted with these caveats in mind.
104. **Internal benchmarking.** Project performance over the period 2002-2006 was benchmarked internally for relevance, effectiveness, efficiency, sustainability and innovation against the results contained in the 2005 Independent External Evaluation (IEE) of IFAD. A comparison of ARRI and IEE data is presented in table 17, which also includes the targets contained in IFAD's Action Plan.
105. It is useful to note that, in its ARDE report, the World Bank benchmarks its own performance by presenting data grouped according to the six geographic regions in which it finances operations. In fact, an initial attempt was made to compare performance<sup>48</sup> across the five geographic regions covered by IFAD operations for the entire cohort of data between 2002-2006. However, the currently available sample of data by region was found to be unreliable for such analysis at this stage. Benchmarking of IFAD's performance by its five geographic regions should become possible in the future, once a more consistent set of data is available for each region.
106. **External benchmarking.** There are several ways in which IFAD's size and its specialist mandate distinguish it from other development agencies. Finding data from comparable projects is a challenge. However, there are also many similarities, not least the need to demonstrate results, manage risks and work in alignment with country-led development frameworks.<sup>49</sup> Some evaluation data from other development banks are presented for comparison in table 18.

<sup>48</sup> Using the overall achievement criterion, as it provides the most comprehensive assessment of project results.

<sup>49</sup> As enshrined in the commitments of the Paris Declaration (OECD/DAC, *Paris Declaration on Aid Effectiveness* [Paris: 2005]).

Table 17  
**Internal benchmarking (percentage satisfactory)**

<i>Evaluation criteria</i>	<i>Independent External Evaluation<sup>a</sup></i>	<i>2002-2006 Evaluations</i>	<i>Action Plan targets<sup>b</sup></i>
Relevance	100	96	100
Effectiveness	67	72	80
Efficiency	45	66	60
Sustainability	40 <sup>c</sup>	45	80
Innovation <sup>d</sup>	55	68	>25

<sup>a</sup> See chapter 2 in the report of the IEE, dated September 2005.

<sup>b</sup> The Action Plan was approved by the Executive Board in December 2005.

<sup>c</sup> This is based on the ratings of 10 late and closed projects. However, the IEE found that 61 per cent of the projects (18) it covered would have classified as satisfactory in terms of sustainability.

<sup>d</sup> The IEE split the analysis into local and national innovations. The results included in the table refer to the local innovations, which it defines as something "new or different at the community or village level (more commonly understood to be technology transfer)". As for national innovations, defined as something "new or different in a particular country context (a new type of microfinance organization, a new agricultural technology)", only 25 per cent of the projects rated were considered satisfactory.

107. In its most recent *Annual Evaluation Review*,<sup>50</sup> AsDB noted that the success rate<sup>51</sup> for agriculture and rural development operations approved from 1990 to 1997 was 52 per cent. Using the same criteria, the ARRI analysis found that the success rate of IFAD operations in Asia and the Pacific was about 83 per cent in the period 2002-2006.
108. The World Bank's 2006 ARDE provided data for 222 rural-sector projects exiting during 2001-2005. Eighty per cent of these projects had satisfactory outcomes, and 73 per cent were judged likely to be sustainable. According to the ARRI analysis, 84 per cent of IFAD operations evaluated globally in the period 2002-2006 had satisfactory project performance (which is comparable to the World Bank's outcome criterion<sup>52</sup>), while sustainability was at the very low rate of 45 per cent.
109. The Operations Evaluation Department (OPEV) of the African Development Bank (AfDB) has so far not issued a comparable report on its project performance. However, a review by OPEV in 2007 of its 2003-2005 project completion reports found that four of the eight agriculture-sector projects (50 per cent) recorded satisfactory overall project outcomes, compared with 63 per cent for all projects. Another OPEV review of evaluation ratings for 2001-2002 indicated that 69 per cent of AfDB's agriculture operations had satisfactory results in terms of sustainability.<sup>53</sup> The Office of Evaluation and Oversight of the Inter-American Development Bank issued a *Development Effectiveness Report* (RE-260) in 2002, but has not produced another edition. That report did not contain comparable data.

<sup>50</sup> Operations Evaluation Department, AsDB, *Annual Evaluation Review* (Manila: 2006).

<sup>51</sup> The success rate is based on four core evaluation criteria: relevance, effectiveness, efficiency and sustainability. Projects rated successful are defined as the sum of projects rated highly successful, successful and partly successful – *ibid.*, page 5.

<sup>52</sup> Project performance is a composite of relevance, effectiveness and efficiency. It is comparable to the World Bank's outcome criterion, which is also based on relevance, effectiveness and efficiency.

<sup>53</sup> See table A8 on sustainability in: AfDB, *Review of 2001-2002 Evaluating Results* (ADB/ADF/OPEV/2004/03) (Abidjan, Côte d'Ivoire: AfDB/AfDF, April 2004).

Table 18

**Benchmarking against agricultural and rural development operations of other IFIs**  
(percentage of projects rated satisfactory)

	<i>IFAD</i> (2002-2006)	<i>World Bank</i> (2001-2005)	<i>AsDB</i> (1990-1997)
Outcome (project performance) worldwide	84	80	N/A
Project performance and sustainability <sup>a</sup> in Asia and the Pacific	83	79 <sup>b</sup>	52

Note: N/A = not applicable or not available or both.

<sup>a</sup> 'Project success', as used at AsDB, is a composite of relevance, effectiveness, efficiency and sustainability.

<sup>b</sup> This is an average of project outcome and sustainability across all sectors and not merely agricultural and rural development operations – see table A1 in the World Bank's 2006 ARDE.

110. In sum, although such comparisons must be interpreted with caution given the specificity of each organization and its operating model, based on the most recent data available, IFAD's project performance rating is broadly on a par with the rural-sector operations financed by the World Bank, although the latter seems to perform better in terms of sustainability. The success rate of IFAD operations appears to be higher than the agricultural operations financed by AsDB.

Key points from the 2002-2006 evaluations

- Broadly speaking, performance over the 5-year period has been satisfactory in all evaluation criteria, but not in terms of access to markets. Moreover, there are opportunities for improvement in impact on institutions and services as well as on the environment and common resources.
- The performance in terms of sustainability has been disappointingly low, warranting urgent attention by Management.
- The analysis reveals two major findings: (i) context is a major determinant of project success; and (ii) more recent operations tend to be more satisfactory than older ones. With regard to context, the ARRI report notes that the requirements of middle-income and fragile countries are significantly different from the priorities of low-income countries. These and other related findings merit deeper analysis.
- The performance of IFAD operations in Asia and the Pacific appears well above par in comparison with the agricultural and rural development projects of AsDB. IFAD is broadly on a par with the World Bank's agricultural and rural development operations worldwide.

## VI. ARRI report's contribution to learning

### A. Sustainability

111. This year's ARRI report examines two themes in more detail. The first of these – sustainability – was selected because of IFAD's weak performance in this area in the past: 55 per cent of the 73 projects evaluated since 2002 have received unsatisfactory ratings for sustainability. IFAD's performance in this critical area is the weakest of all the criteria evaluated.

#### Definitions and measurement

112. Definitions of sustainability are wide-ranging and often hard to pin down. OECD/DAC defines sustainability in the context of development cooperation as "The continuation of benefits from a development intervention after major development assistance has been completed". This definition is built on a twin assessment of the likelihood or probability of continued long-term benefits and the resilience to risk of the net benefit flows over time. Sustainability is assessed in relation to stated

project or programme objectives and the type of benefits expected at project inception and subsequently throughout project implementation.

113. The assessment of the likelihood of continued long-term benefits involves a number of dimensions of sustainability – economic, social and environmental. In the definition adopted by PMD in its Project Completion Report Guidelines, there are six principal factors to be taken into account when assessing sustainability: political, social, institutional, economic/financial and environmental sustainability and ownership. Other development agencies use different assessments. For example, the World Bank assesses sustainability in terms of “the risk to development outcome”. The likelihood that project benefits will be sustained is a function of the degree of resilience that a project or programme has to specific risks or shocks.

#### **Importance of institutions**

114. A focus on institutions is common to all agency definitions of sustainability. Without the right kind of institutional framework – be it formal or informal, national or local – the likelihood that benefits will be sustained is substantially reduced. Institutions in this sense refer to both formal and informal rules of the game (from customary tenure to the regulatory/policy environment) and to organizations. In a seminal study on the challenge of sustainability for development agencies, Andersson, K. et al. (2005)<sup>54</sup> argue that the prime focus should be on incentives. This is particularly the case for primary contributors that ensure post-project continuation of the benefit streams, the failure of which is often a major reason for the poor sustainability of development interventions. The same study reveals two important lessons. First, that sustainability in development assistance is about the longevity of the positive effects it creates and not about the existence of particular projects or activities. Second, that achieving sustainability requires designing for it and creating a culture of organizational learning to support it over time.

#### **Evaluation findings**

115. IFAD shares the challenge of addressing sustainability with its development partners. Successive ARRI reports have pointed to weak prospects for sustainable outcomes in a significant portion of IFAD operations. While the contexts in which IFAD works pose particular challenges to achieving sustainable outcomes (weak institutions and non-existent or weak markets), the current performance record suggests that, against their own objectives, over half of IFAD’s projects evaluated are unsatisfactory in terms of sustainability.<sup>55</sup> The question is why. Does the problem lie in the way IFAD designs operations, in the way they are implemented, in the high expectations of relatively small investments or problems of organizational culture and weak incentives?
116. In looking at the evaluation record, the issues that recur in projects that have underperformed on sustainability are:
- Overambitious project objectives, often poorly adapted to the context;
  - Inadequate attention to institutional, social and risk analysis and, consequently, little attention to mitigating and resilience-building measures that help projects adapt to changing circumstances over time;
  - Insufficient hands-on implementation support and short project time frames; and
  - Insufficient attention to ongoing, recurrent financing and technical assistance requirements following project closing.
117. Project evaluations from 2006 illustrate some of the challenges. A common feature is the weakness of institutional strengthening efforts. In contrast, the Peru project

<sup>54</sup> Andersson, K., Gibson C., Ostrom, E. and Shivakumar S., “The Aid Effectiveness Puzzle,” in Shivakumar, S., *The Constitution of Development: Crafting Capabilities for Self-Governance* (New York: Palgrave, 2005).

<sup>55</sup> Objectives are themselves context-specific, as are expectations about what can reasonably be delivered and hence sustained. The higher the risks to delivering sustained benefits, because of the difficulty of the context and/or the newness of the project approach, the more attention needs to be given to risk reduction and mitigation measures at project formulation and during implementation.

demonstrated strong institutional development linked to a highly participatory project development process, strong support from a CPM based in the country, and an emphasis on continuous improvement and learning from experience.

118. A major difficulty in assessing the sustainability of IFAD-supported operations lies in the lack of M&E data at project completion, particularly in older projects, and the relatively scarce attention paid to reviewing risks and assumptions in relation to the achievement of development outcomes at the mid-term review.
119. The CPE for Mali, for example, acknowledges that newer-generation projects demonstrate slightly better prospects for sustainability. This is based largely on improved design, but also on increased attention to improving access to rural financial services – critical to making capital available in rural areas. Even so, the sustainability of newer projects is not guaranteed, and weaknesses are still evident in terms of support to farmer organizations, poor linkages to permanent local institutions, insufficient attention to cost effectiveness and a lack of technical specialists engaged in project management.
120. Sustainability in IFAD operations is also potentially hampered by a country presence that is not permanent. In Mali, although IFAD is the lead agency for the north, dialogue with partners remains heavily project focused, while coordination challenges are not addressed. Policy dialogue opportunities are being missed on a number of issues crucial to development in the north, including security of land tenure, decentralization and the regulation of financial institutions.
121. To engage IFAD staff more widely in a forward-looking discussion on the issues affecting sustainability, OE organized a workshop on key lessons from evaluations and from other organizations. It invited staff reactions and identification of possible ways to move forward. Box 1 summarizes the main highlights arising from the workshop on factors that enable or impede sustainability in IFAD operations.

Box 1

**Factors affecting the sustainability of IFAD operations**

- Difficult contexts, high risks, innovative practices;
- Absence of enabling factors, including strong political and governance institutions and economic/market incentives;
- Overambitious project objectives, sometimes weakly embedded and insufficiently owned by country/local implementing partners;
- Inadequate institutional, social and risk analysis, weak analytical underpinnings of IFAD project designs;
- Inadequate country-level engagement and implementation support by IFAD staff;
- Too-short time frames;
- Scarce attention to exit strategies and ongoing recurrent financing needs; and
- IFAD's internal incentive environment, which increasingly favours the delivery of short-term outputs (results) over longer-term institutional outcomes.

**Comparisons with other agencies**

122. While IFAD is different in some respects, so is each development agency. The challenge of sustainability is thus not a particular challenge for IFAD, but one shared with its development partners, whether national or local, governmental or donor. How does IFAD's performance compare with others?
123. The Asian Development Bank's project success rating includes its assessment of the likelihood that project benefits will be sustained. Data from an annual review of evaluation activities<sup>56</sup> indicate that about 78 per cent of the projects evaluated at the time were likely to be sustainable. A quantitative study of the determinants of

<sup>56</sup> See table 2 in: Operations Evaluation Department, AsDB, *Annual Review of Evaluation Activities in 2003*, by Curry, S., Ibrahim, A., Ito, T., Lumain, R. and Tubadeza, J. (Manila: AsDB, June 2004).

project success found the following factors to be central in achieving positive outcomes: (a) characteristics of the sector (some being more favourable (transport) than others (agriculture)); (b) economic climate, underscoring the need for sound country economic analysis to underpin project formulation; (c) regulatory quality (one indicator of the quality of governance); and (d) absence of long delays in project implementation (see footnote 52).

124. As stated in paragraph 109, the AfDB notes that 69 per cent of their agriculture operations have satisfactory results in terms of sustainability. However an AfDB Country Assistance Programme evaluation for the United Republic of Tanzania, published in 2005, reports that a major feature of the portfolio is the significant emphasis on irrigation and the poor sustainability of many of these operations.
125. Successive World Bank ARDEs have also pointed to a continuing challenge of sustainability (see paragraph 108). However, recent progress is impressive. For rural-sector operations, the average for projects exiting in 2001-2005 was that 73 per cent were likely to be sustainable or better, up from an average of 45 per cent for projects exiting in 1996-2000.<sup>57</sup> This improving trend is associated, among other things, with a clearer focus on delivering results at the country level, strong country presence in many cases, a clearly defined and monitored results chain, and an appropriate choice of lending instrument.
126. However, the 2004 ARDE noted the difficulties of achieving sustainable outcomes in poverty reduction projects and programmes, particularly when working at the community level. Furthermore, the World Bank has been more successful where it has supported home-grown initiatives and less successful where it has tried to introduce new ones. The sustainability of such approaches remains weak.
127. Where there is evidence of sustainability, community-based projects have been carefully adapted to the social characteristics of each beneficiary community and have adopted a longer-term approach, which aims to leave behind infrastructure and local organizations capable of operating and maintaining services. A notable finding is that World Bank projects that incorporate one or more effective social development actions (whether community-driven development, conflict prevention or gender actions) tend to have better ratings on outcome, sustainability and institutional development impact than the overall portfolio. However, finding ways to deliver effective social development actions remains a major challenge.

#### **Towards improved sustainability**

128. As the last section confirms, a good percentage of the lessons on the obstacles to sustainability are common across development agencies. In particular, the focus on aid effectiveness has highlighted a number of common threads among both multilateral and bilateral partners that point not just to common problems, but also to possible shared solutions. This shared challenge provides IFAD with a crucial opportunity to learn from the experience of others and, where possible, to join in common approaches to improving the prospects for sustainability – not just of development assistance, but of the development effort more broadly.
129. A number of actions are already underway within IFAD to address improved development effectiveness. This includes the commitment in the Strategic Framework to making sustainability a key principle of engagement: “IFAD will improve its project design quality, so as to ensure development impact; and it will maintain its support until such time that the impact can be sustained.” The 2005 Action Plan also emphasizes sustainability, stating that by 2009 the share of operations achieving likely sustainability or better (along with effectiveness) will reach 80 per cent. Other relevant measures include the recently approved IFAD Policy on Supervision and Implementation Support (2006), the recent decisions related to IFAD’s country presence arrangements, and ongoing quality-enhancement measures led by PMD.

<sup>57</sup> Table A.1, appendix A, in the World Bank’s 2006 ARDE.

130. Box 2 summarizes priority actions identified at the workshop that are likely to require particular emphasis.

Box 2

**Sustainability: priorities for moving forward**

- Greater realism in setting as well as reviewing project objectives, and a focus on exit strategies early in project design; assurance that technical specifications are such that partners and beneficiaries are able to adequately operate and maintain technologies after the project ends;
- Longer time frames for project identification in order to identify existing institutions with which to build the basis for ownership and commitment and to ensure that implementation capacity and necessary arrangements are in place before projects become effective;
- More-systematic economic, institutional and risk analysis and identification of expected outcomes, steps taken to ensure sustainability, and risk-mitigating measures as part of project design;
- Clearer sequencing and phasing of institution-building and economic activities; and
- Increased resources for implementation, direct supervision and implementation support; consideration of a stronger country presence, particularly in those countries with weak capacities and enabling environments.

131. **Recommendation.** The ARRI report underlines several areas that must be addressed if enhancements in the sustainability of IFAD operations are to be achieved. However, the overarching recommendation is that IFAD develop a specific approach in 2008 to promoting and improving sustainability as an integrated part of its overall efforts to improve the COSOP and project cycles. The underlying assumption is that operations need to be designed for sustainability from the very beginning and a culture of organizational learning created to support sustainability over time. A definition of sustainability that focuses on the endurance of results needs to be agreed on. The approach would be expected to provide clearer guidance to IFAD staff and other concerned partners on the critical factors that must be considered right from the project design phase and through completion. More specifically, the approach should be anchored in three aspects: (i) a more systematic analysis of the institutions involved; (ii) greater realism in the formulation of objectives and approaches; and (iii) development and implementation of exit strategies in all projects and programmes supported by IFAD.

## B. Innovation

132. Unlike sustainability, innovation was not selected because it was a particularly weak area. In general, evaluation evidence suggests that IFAD has been less innovative than it aspired to be, rather than weak per se. Innovation has come to be seen as a key component of IFAD's comparative advantage and therefore an increasingly important corporate characteristic. This is reflected in the Strategic Framework and in the Action Plan, which had a separate target for innovation.<sup>58</sup> It is also reflected in the fact that the Fund has produced its first comprehensive innovation strategy, which was approved by the Executive Board at its ninety-first session in September 2007.<sup>59</sup>

### Definition and measurement

133. According to the new innovation strategy, "there is no universally binding definition of innovation. Each organization must reach a definition that has the greatest operational value from its perspective. In the case of IFAD, the operational framework of the Initiative for Mainstreaming Innovation defines innovation as 'a process that adds value or solves a problem in new ways'. This strategy retains this definition, and it further specifies that in order to qualify as an innovation, a

<sup>58</sup> The Action Plan aims to raise the innovation rating at the national level above that of the 25 per cent of IFAD-supported projects rated innovative by the IEE (2005).

<sup>59</sup> IFAD Innovation Strategy, document EB 2007/91/R.3/Rev.1.

product, idea or approach needs to be new to its context, useful and cost-effective in relation to a goal, and able to 'stick' after pilot testing."

134. Innovation has not been an evaluation issue for other development agencies, and thus no comparable evaluation information was found.

### **Evaluation findings**

135. Successive ARRI reports have noted a mixed success record. Overall, 68 per cent of the projects were rated satisfactory over the 2002-2006 period in terms of innovation. Each year saw a mix of innovative and less innovative projects, of innovative and conventional project components, and of successful and less successful innovation. There were relatively few instances of actual replication and scaling up, which could be considered the acid test for declaring an innovation promotion process successful – for example, the rural savings banks in Costa Rica and the Bolivarian Republic of Venezuela (2005 ARRI report) and the self-management boards and water users' groups in Viet Nam (2004 ARRI report).
136. Until 2004, innovation as either a cross-cutting issue or a separate thematic or strategic area for consideration was scarcely addressed within Portfolio Performance Reports (PPRs). Since 2004, however, with the advent of the Initiative for Mainstreaming Innovation (IMI), innovation has featured more explicitly as an area for performance assessment. The 2005 PPR found that, overall, IFAD-assisted programmes and projects possessed "a substantial degree of innovative elements and they have been replicated to a fair extent". It noted that there was evidence of innovative ideas being replicated either by other donors or by governments. A review of project completion reports in the 2006 PPR found that innovation was satisfactory in about two thirds of the cases.
137. Many factors that allow successful innovation at the project level are the same as those for successful pro-poor initiatives generally, for example innovations that: address a need widely shared by poor people; have been well-tested and piloted; are affordable and relatively simple to adopt; are based on existing or traditional knowledge, technologies, practices, cultural and social norms; have clear and rapidly visible advantages; and are easily reversible if they do not work.
138. At a more general level, the IFAD evaluation literature suggests that successful innovation needs an explicit innovation objective; a structured innovation process, with clear sequential steps; a genuine commitment to and capacity for innovation on the part of IFAD and its partners; and a supportive policy environment and effective local partners. Flexible project designs, longer project time frames, frequent adjustments during implementation and systematic follow-up are also required. Some of the most innovative projects have been in countries with a permanent IFAD presence.
139. The replicating and scaling up of innovations requires much the same approach. Replication needs to be an explicit objective and supported by policy dialogue and partnerships in order to scale interventions up to meso- and macro-levels.
140. Previous evaluations have also identified some of the organizational factors that constrain innovation within IFAD and the Fund's role as a promoter of replicable innovation. Many of these mirror the success factors already mentioned. Innovation was less likely in an organization that did not require explicit objectives relating to innovation, did not focus on innovation during supervision and implementation support, and generally lacked an in-country presence. More fundamentally, evaluations pointed to the need for: an institutional culture biased towards, rather than against, innovation, with competencies and incentives to match; a clear definition of and conceptual framework for innovation within the organization; better analysis and treatment of risk; and better knowledge management of experience and lessons learned from IFAD and other programmes.



141. As in the case of sustainability, an internal workshop was held to discuss these and other explanations of IFAD's mixed record on innovation. Box 3 summarizes the factors affecting innovation as identified in the workshop.

Box 3

**Additional factors affecting innovation as identified by IFAD staff**

- Innovation is a relatively new objective for IFAD. Most of the projects evaluated pre-date this.
- Design and approval pressures do not allow sufficient time for 'scouting' for new ideas.
- There is a possible tension between a focus on results (which favours proven solutions) and a focus on innovative approaches (which increases the risk of failure).
- The risks of innovation are perceived differently by and distributed differently among different stakeholders.
- Gaps exist in competencies and capacities within IFAD and its partners.
- Loans may not be the most appropriate financial instrument, or at least they need to be better linked with grants.
- Governments are not necessarily receptive to or supportive of innovation.

**Improving IFAD's innovation promotion process**

142. Box 4 presents a list of issues identified at the workshop to be considered on a priority basis to further strengthen IFAD's overall innovation promotion process.

Box 4

**Innovation: priorities for moving forward**

- Clarify the definition, aspiration and measurement.
- Create a more supportive 'space' and internal culture for innovation.
- Structure the innovation process, and train staff to support it.
- Increase the time and capacity for innovation scouting.
- Consider measures for marketing and sharing innovation at the country level (e.g. innovation fairs).
- Re-examine the case for more flexible financing instruments and the focus on governments.
- Consider how innovation could be facilitated and encouraged within project design and implementation.
- Increase direct supervision, implementation support and country presence.
- Improve knowledge management, innovation-sharing and the rotation of staff.

143. Many of the above factors are being addressed in the framework of implementing the recently approved IFAD Innovation Strategy. Moreover, the forthcoming evaluation by OE of IFAD's efforts to promote replicable innovation will provide another opportunity to take stock of past performance and generate lessons learned, which will also be useful during implementation of the strategy.

## VII. ARRI report's content

144. In this fifth edition of the ARRI report, it is useful to review the evolution of the document in terms of the presentation of data and the related analysis.
145. The first ARRI report, presented in 2003, was based on 10 project evaluations. The report underlined the need to interpret results with caution – given the relatively small sample size used for performance assessment. It also noted "that as more ARRI reports are produced, for example, in two years from now when the results of 30 project evaluations using the Methodological Framework for Evaluations will be

available, OE will be in a better position to report on a larger sample thereby allowing more robust consolidation of portfolio performance at completion".<sup>60</sup>

146. The second ARRI report in 2004 presented the results for projects evaluated in 2003. Moreover, it included the consolidated results for 2002-2003 for the composite criteria for project performance, rural poverty impact, partner performance and overall achievement.<sup>61</sup> The third ARRI report in 2005 included the results for projects evaluated in 2004, plus an overview of the consolidated results for the entire sample of projects evaluated over the period 2002-2004. The 2006 ARRI report included the results for projects evaluated in 2005, in addition to an overview of the consolidated results of 2002-2004.
147. Consistent with these features, this year's document presents findings based on projects evaluated in 2006, together with an overview of results for 2002-2006. The 2002-2006 data have also been analysed to identify major factors affecting the performance of IFAD operations. In any event, the question arises of the appropriate time span for the aggregation of results from past years. For example, the World Bank's ARDE aggregates evaluation data for a 5-year period.
148. This and last year's ARRI reports have made attempts to benchmark IFAD's performance externally against other IFIs,<sup>62</sup> and internally against the targets approved by the Executive Board in the Action Plan. The advantages and limitations of benchmarking were underlined in paragraphs 102-103.

## VIII. Conclusions and recommendations

### A. Conclusions

149. While continuing to provide a comprehensive account of the results achieved in a single year (2006), this year's ARRI process paid particular attention to learning through in-depth analysis of two areas of critical importance to IFAD: sustainability and innovation. Such analysis will allow the Fund and its Executive Board to use the report both for accountability purposes and as an instrument for organizational change, with the ultimate aim of enhancing IFAD's development effectiveness. While the ARRI report is and will remain an important instrument for strengthening accountability, its value is increased through an emphasis on understanding the root causes of the performance and impact of IFAD operations.
150. With regard to sustainability, evaluation results demonstrate that there is clearly room for improvement. There are several reasons for weak performance in this area, such as the often overambitious objectives of projects and programmes or the lack of attention to exit strategies early in the process. While it is clear that other development organizations are also grappling with similar issues, this should not be a reason for complacency.
151. On the other hand, the Fund's performance in recent years in promoting innovative solutions to rural poverty reduction has generally been satisfactory, and the new IFAD Innovation Strategy provides an opportunity to systematize IFAD's overall approach in this area. The ARRI report does, however, state that there is a need for deeper, specific efforts to ensure that innovations are scaled up and replicated by other development actors – for example by better linkages among promotion of innovations, knowledge management, policy dialogue and partnership strengthening. The fact that sustainability and innovation represent two of the six key principles of engagement in the Strategic Framework is an illustration of the commitment of the Fund to addressing these issues.
152. In terms of results, analysis of the 2006 data illustrates that relevance remains strong for IFAD. Impact on human assets, the environment and institutions is particularly good, whereas performance in promoting markets, financial assets and

<sup>60</sup> See paragraph 13 in the ARRI report of 2003, document EB 2003/79/R.5.

<sup>61</sup> See tables 9 and 12 in the ARRI report of 2004, document EB 2004/82/R.6.

<sup>62</sup> See table 3 in the ARRI report of 2006, document EB 2006/89/R.10.

M&E is weak. Data analysis for the 2002-2006 period shows that impact on human assets is also good, while impact on markets, institutions and M&E could be better.<sup>63</sup> Well-functioning M&E systems at the project level are crucial, not least because they ensure reliable performance assessment and learning. Overall, the performance of IFAD as a partner institution has been satisfactory in 51 per cent of the projects rated for 2002-2006.

153. Two findings stand out from analysis of the 2002-2006 evaluation data. First, the ARRI report notes that country context is a strong determinant of project success, including such factors as the stability of governments, their policies related to agricultural and rural development, capacities of implementing institutions and level of decentralization. In fact, the ARRI report reveals that achievement is markedly lower in difficult policy and institutional contexts. However, the difficulties in context cannot always authoritatively be taken as an excuse for weak performance, as it is assumed that project strategies and approaches should take into account the difficulties of the context at design and should be adjusted as required to the changes in context that may occur during implementation. Deeper analysis is required to understand the consequences of context on project results. This will require, among other issues, responding to questions such as the following: Are IFAD-supported projects sufficiently different in difficult contexts from those in better contexts, for example in conflict or post-conflict countries and fragile states as well as in middle-income countries? Are project objectives sufficiently realistic, given the context, and adaptable to changes in the context during implementation?
154. Second, projects effective from 1997 onwards generally appear to be more satisfactory than earlier projects (see table 16), which is consistent with a similar analysis in last year's ARRI report.<sup>64</sup> This is a good sign, which may indicate that IFAD is learning from past experience and lessons and increasingly designs and supports operations more effectively. Various reasons can be found to explain this difference (see paragraphs 98-99). However, for the time being, this must remain a pointer or a working hypothesis – which is not supported by a comparison of the performance analysis of projects completed in 2005-2006 and 2001-2004: the former on average were not found to be better than projects closing in 2001-2004.

## B. Recommendations

155. The Executive Board and IFAD Management are invited to review and approve the following recommendations:
156. **Sustainability.** IFAD should develop a specific approach to promote sustainability in 2008 in order to address this crucial, recurrent area of weakness in its operations – and as an integral part of its overall efforts to improve the COSOP and project cycle. The approach would provide clear guidance to IFAD staff and other concerned partners on key aspects that need to be taken into account during the preparation of COSOPs and throughout the project cycle. More specifically, the approach should be anchored in three aspects: (i) a more systematic analysis of the institutions involved; (ii) greater realism in formulating objectives and approaches; and (iii) development and implementation of exit strategies in all projects and programmes supported by IFAD.
157. **ARRI report 2008.** OE proposes to undertake specific analysis based on evaluation data and to engage IFAD Management and staff in a debate during the preparation process for next year's ARRI report. That report will deal with the first two of the three themes listed below, with the aim of identifying priority measures to be considered in order to improve performance in these areas. The third theme will be the focus of the 2009 report. It is evident that these three topics are of

<sup>63</sup> However, the impact on institutions based only on 2006 is good.

<sup>64</sup> See annex V of the 2006 ARRI report.

varying natures and complexity, and thus each will require different levels of effort, processes and resources to be addressed appropriately:

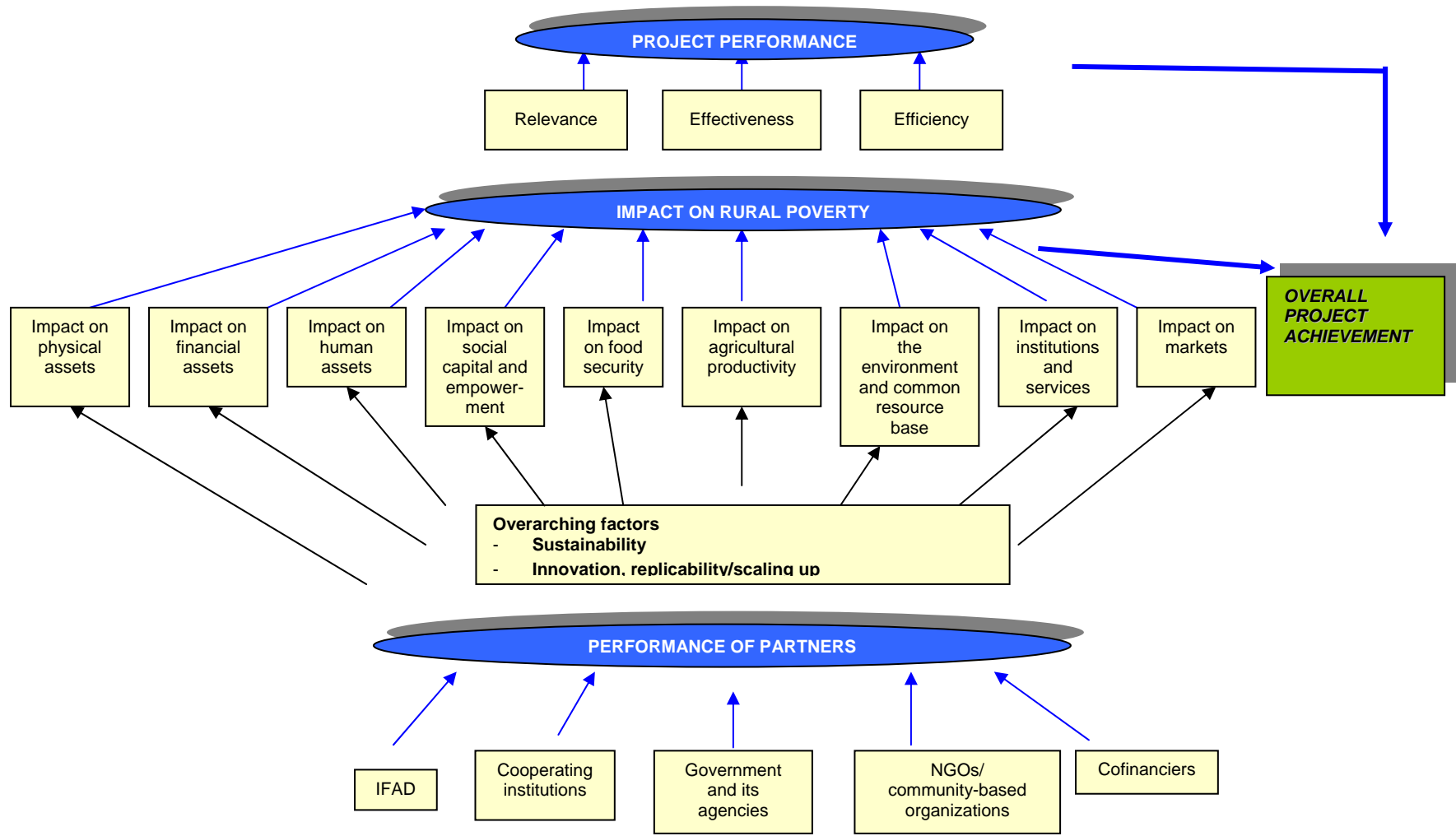
- **Country context** appears to be a major determinant of the success and sustainability of IFAD-funded operations. Analysis will include IFAD experiences in middle-income countries and fragile states. The review will entail an in-depth assessment, inter alia, of how policies, institutional capacities, agroecological characteristics and conflict affect the performance and impact of IFAD operations. It will also include learning from the experiences of other development organizations in dealing with country context issues in their own activities.
  - **The monitoring and evaluation function** has repeatedly been identified as a weakness in IFAD-supported projects and programmes and is crucial, inter alia, for results-based management, impact assessment, knowledge management and innovation promotion.<sup>65</sup>
  - **Weaker impact areas**, particularly markets, institutions and the environment, are also prominent areas of the Strategic Framework.
158. Two features of ARRI reports have evolved over the years. First, the report has underlined the risks involved in analysing trends in the performance of IFAD operations by comparing the results from one year to another. Thus, in addition to reporting on evaluation results from a single year, the reports have aggregated the ratings available in previous reports<sup>66</sup> and have presented those results. A similar presentation covering the last 5 years (2002-2006) is also included in this year's edition (see section V), in addition to the summary of the 2006 results only. Such consolidation of data and reporting, based on a larger sample of evaluated projects, is considered more reliable and allows for the generation of more robust lessons and identification of recurrent systemic issues affecting performance. This ARRI report has also presented the results for two shorter periods, 2002-2003 and 2004-2005 (see table 14), in order to illustrate performance in these two periods and in 2006. It is proposed that future editions include presentation of data based on multi-year periods, as appropriate, in addition to the annual cohort of projects normally considered by the report.
159. Second, this and last's years ARRI reports have introduced the notion of benchmarking, which, among other issues, serves as an instrument to compare the Fund's performance with other IFIs and internally within the organization. Benchmarking can be an incentive to improve development effectiveness if used appropriately, recognizing the challenges related to the overall comparability of the data used. Building on past experience and following best international practice, future ARRI reports will benchmark the performance of IFAD operations externally and internally, and also across the five geographic regions.

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<sup>65</sup> At the ninety-first session of the Executive Board, while considering the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions (document EB 2007/91/R.7), it was agreed that OE and PMD would work closely together in 2008 to develop a plan of action to improve project-level M&E activities. Analysis of this theme for the 2008 ARRI report would contribute towards the same endeavour.

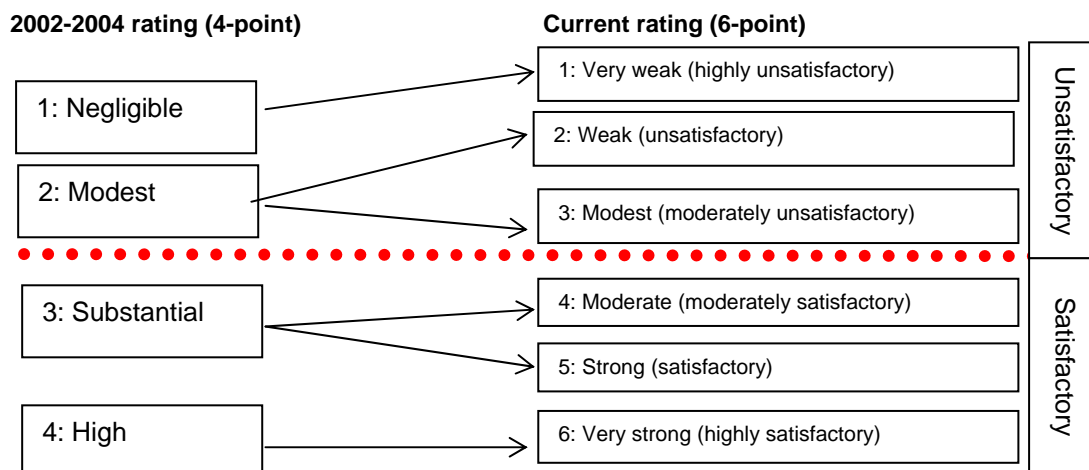
<sup>66</sup> With the exception of the first edition, where for obvious reasons this was not possible.

# Methodological framework for project evaluation



## Data conversion 2002-2004

1. The 29 evaluations undertaken by OE in the period 2002-2004 used a four-point rating scale. The basic objective of the data conversion exercise was to convert these ratings into a six-point scale to make them broadly comparable with the data contained in evaluations undertaken from 2005 onwards. This was a comprehensive task, undertaken by an evaluator-consultant, and entailed a detailed review of all 29 evaluation reports used in preparing the first three editions of the ARRI report.
2. The chosen method provided a tightly restricted transposition of ratings as shown in the diagram. As a result, all evaluation ratings are now available on a six-point scale.



3. This method ensures that all project ratings remain consistently satisfactory/unsatisfactory when compared with the original four-point scale used in the 2002-2004 evaluation reports. That is, the conversion exercise did not change the percentage of projects rated satisfactory or unsatisfactory for any criteria.
4. Finally, it is useful to note that in the initial stages of implementing the OE methodology for project evaluations, in some instances evaluators did not systematically rate all evaluation criteria. Hence, the conversion exercise offered an opportunity to fill in some of the gaps present in ratings within the individual evaluation reports produced in the past. However, a new rating was only attributed if sufficient information and evidence were available in the corresponding evaluation report to allow OE to make an objective judgement at this stage.

## Definition of evaluation criteria

1. (i) **Relevance** is defined as the extent to which project objectives are consistent with: the needs of rural poor people; IFAD's Strategic Framework and policies; and the country's current policies and strategies for poverty reduction.
 

(ii) **Effectiveness** is defined as the extent to which project objectives were achieved at project completion.

(iii) **Efficiency** is a measure of how economically inputs (funds, expertise, time, etc.) were converted to outputs. This can be based either on economic and financial analysis or on unit costs compared with alternative options and good practices.
2. **Project performance** is a composite of the assessment of the relevance, effectiveness and efficiency evaluation criteria.
3. **Rural poverty impact.** This criterion assesses the changes that have occurred by project completion. IFAD defines rural poverty impact as the changes in the lives of rural poor people, intended or unintended – as they and their partners perceive them at the time of the evaluation – to which IFAD's interventions have contributed. Impact has been divided into nine impact domains that are addressed by IFAD projects to varying degrees:
  - **Physical assets** include equitable access to land, water, livestock, tools, technology and infrastructure.
  - **Financial assets** include secure access to rural financial services by working through and improving institutional frameworks that provide such services.
  - **Food security** covers availability (production and trade), access to food (income, markets and prices) and stability of access (storage and marketing arrangements).
  - **Environment and common resource base** focuses on assessing the extent to which a project contributed to the protection or rehabilitation of natural resources and the environment or the extent to which the project contributed to the depletion of natural resources.
  - **Human assets** assesses the level of capital embodied in people and includes their nutritional status, health and knowledge.
  - **Social capital and empowerment** includes an assessment of the empowerment of individuals, quality of grass-roots organizations and institutions and the collective capacity of poor people (their social capital).
  - **Agricultural productivity** is measured in terms of cropping patterns (e.g. shifting from subsistence farming to producing cash crops) and yields (production in relation to inputs).
  - **Institutions and services** aims at assessing the quality and performance of institutions, policies and regulatory frameworks that influence the lives of rural poor people.
  - **Markets** are important in rural poverty reduction. Evaluations assess the project's efforts in promoting physical access to markets (transport routes and means of transportation) and to information on prices and goods.
4. **Overarching factors**
  - **Sustainability** indicates the continuation of benefits from a development intervention after major development assistance has been completed.

- **Innovation.** According to the new IFAD Innovation Strategy, a product, idea or approach is innovative if it is: (i) new to its context of application; (ii) useful and cost-effective in relation to a goal; and (iii) able to 'stick' after pilot testing.
5. **Performance of partners.** This criterion assesses the performance of primary partners in the project: IFAD, cooperating institutions, government and its agencies responsible for implementing the project, NGOs/community-based organizations involved in project implementation, and project cofinanciers. It assesses how well IFAD and its partners identified, prepared and supervised the project and the contribution each made to project success during implementation.
  6. **Project achievement** provides an overall assessment of an IFAD-funded project. It is not a simple numerical aggregation, but rather a judgement formed by the evaluators, building on the ratings assigned to the various evaluation criteria.



## Objectives of country programmes and individual projects evaluated

### Objectives of country strategies

The main objectives of the three country strategies are summarized below:

- (i) **Brazil:** The 1997 COSOP included:
- Undertaking policy dialogue;
  - Promoting access to land;
  - Supporting the Government's smallholder-sector policy and programme (National Programme for the Development of Family Agriculture – PRONAF); and
  - Focusing IFAD assistance in the north-east region of the country.

The COSOP also included four "strategic choice[s] of instrumentalities":

- Partnering with the Federal Government;
- Strengthening human resources development;
- Building new approaches to delivery of critical support services; and
- Developing off-farm activities and microenterprises.

- (ii) **Mali:** According to the 1997 COSOP, the aim of assistance to the Government of Mali is to improve rural poor people's standard of living through four main objectives:

- Ensuring household food security;
- Creating a sustainable village- or group-based participatory development process;
- Increasing household incomes; and
- Ensuring sustainable natural resource management.

The COSOP defined two intervention zones: the Sahelian zone, located between the 14<sup>th</sup> and 16<sup>th</sup> latitudes north (with annual rainfall of 400-800 mm) and the sub-Saharan belt (with annual rainfall of 150-400 mm).

- (iii) **Morocco:** Key elements of IFAD's strategy in Morocco, as outlined in the COSOP, consist of contributing to the Government's efforts to:

- Focus on community-driven rural development needs rather than on commodity-specific agricultural development;
- Promote food security at national and household levels through diversification of production by supporting commodities with a comparative advantage on national and international markets;
- Further consolidate and strengthen devolved, decentralized planning and implementation through support for the creation and strengthening of local institutions and grass-roots organizations, together with devolution of human and financial resources from the centre to the regions; and
- Improve access of rural poor households to productive resources, including land, water, technological know-how and financial services.

## Objectives of projects and programmes

<i>Country and project/programme names</i>	<i>Objectives</i>
Colombia  Rural Micro-enterprise Development Programme	The programme aims to contribute to the global objective of reducing rural poverty in Colombia by increasing rural households' incomes. Its general objective is to support the development of rural microenterprises as a means of increasing incomes of the rural poor landless population, with particular emphasis on households headed by women. The specific objectives are: (i) providing training and technical assistance to rural microentrepreneurs; (ii) offering them adequate credit facilities; (iii) strengthening the capabilities of NGOs and financial intermediaries in dealing with rural microentrepreneurs; and (iv) strengthening the second-tier national institutions responsible for the provision of technical assistance and training as well as for financial services directed to rural microentrepreneurs.
Ethiopia  Southern Region Cooperatives Development and Credit Project	The general objective of the project is to improve the standard of living of rural households as members of service cooperatives. This is to be achieved through: (i) developing service cooperatives as independent and financially viable grass-roots institutions; (ii) strengthening the institutional capacity of project implementing agencies; (iii) improving access of rural households to markets, credit and improved production technologies; and (iv) reducing the burden of disease, thereby increasing the productivity of household labour and family incomes.
Georgia  Agricultural Development Project	The objective of the project is to increase agricultural productivity by supporting the development of private-sector farming and agroprocessing through: (i) developing an agricultural credit system; and (ii) bringing about liquidity in land markets.
Niger  Special Country Programme – Phase II	The programme goal is to contribute to achieving food and income security by increasing agricultural and livestock production through: (i) helping restore and maintain the productive potential of agricultural and pastoral ecosystems by promoting soil and water conservation and agroforestry activities; (ii) helping establish conditions for self-managed socio-economic development by promoting farmers' and pastoralists' organizations, either in the form of solidarity groups or socio-geographic communities, depending on the scope and nature of activities (e.g. specific economic activities or natural resource management); (iii) encouraging partnership between community-based organizations and the private sector and the participation of women and youth in the decision-making process of their communities; and (iv) assisting in laying the foundation for self-sustained development through promotion of mutual savings and credit funds, in partnership with the formal banking system.
Peru  Development of the Puno-Cusco Corridor Project	The overall objectives of the project are to increase the incomes of rural poor people, thus eradicating extreme poverty, and to facilitate better access to markets for local goods and services. Specific objectives are to: (i) strengthen a demand-driven self-financing market of technical assistance services; (ii) facilitate community investments; (iii) increase the value of the products and services of farmers and small entrepreneurs in intermediate cities and towns; and (iv) strengthen financial institutions and increase coverage of rural financial services.
Philippines  Cordillera Highland Agricultural Resource Management Project	The primary objective is to reduce poverty in the project region by increasing the disposable incomes of smallholder families in the target areas. Such an improvement should also lower the incidence of malnutrition among the target population. In addition, an integral part of efforts to achieve the objective will be focused on promoting sustainable resource management practices, protecting the environment and mitigating adverse development impacts, strengthening existing institutions, involving beneficiaries in project planning and implementation activities, and improving beneficiary access to formal and informal credit.
Romania  Apuseni Development Project	The project aims to improve and stabilize the economic environment of the rural communities of the Apusenis through the promotion and credit-funding of on- and off-farm enterprises and the provision of rural development services.
United Republic of Tanzania  Participatory Irrigation Development Programme	The strategic goal of the programme is sustainable improvement in smallholder incomes and household food security. Its purpose is to enhance the institutional, organizational and technical capacities of farmers, the private sector, NGOs, civil society organizations and government institutions in order to construct, develop and sustain small-scale irrigation systems throughout the marginal areas of the country. The objectives of the programme will be achieved by: (i) increasing the availability and reliability of the water supply through improved low-cost systems of water control; (ii) raising agricultural productivity by improving agricultural extension services to respond better to farmers' needs; and (iii) building institutional capacity to realize, over the long term, the vast potential for smallholder irrigation development throughout the programme area. The six-year programme will consolidate the irrigation development effort in the central plateau.

## Explanation of aggregated ratings

1. A progressive approach is used to derive the aggregate ratings at each level. For example, individual ratings for relevance, effectiveness and efficiency are first applied by the evaluators for each project. An aggregate rating for project performance – which is a combination of relevance, effectiveness and efficiency – is then applied for each project. Similarly, the overall achievement of each project represents a combination of project performance, rural poverty impact, innovation and sustainability.
2. It is important to emphasize that the aggregate ratings are not the mathematical average of the percentage of projects in each subcategory. In table 1, the percentage of projects rated highly satisfactory for the summary criteria is not the average of the percentages for criteria A, B and C. Although 10 per cent of the projects were rated highly satisfactory (rating 6) for criterion A, no projects warranted an overall rating of highly satisfactory for the summary criteria. This also explains, for example, why although 10 per cent of the projects were rated highly unsatisfactory (rating 1) for criterion B, no projects were rated highly unsatisfactory overall for the summary criteria. The 10 per cent highly unsatisfactory ratings were outweighed by the more positive ratings for criteria A and C. This led the evaluators to rate these projects as unsatisfactory or better for the summary criteria.

Table 1  
Data table showing percentage of projects in each category

Criteria	Satisfactory			Unsatisfactory			Total
	6	5	4	3	2	1	
	Highly satisfactory	Satisfactory	Moderately satisfactory	Moderately unsatisfactory	Unsatisfactory	Highly Unsatisfactory	
A	10	40	10	20	20	0	100
B	-	40	20	20	10	10	100
C	-	30	20	50	-	-	100
Summary	-	40	20	20	20	-	100

3. A summary based on the data in table 1 showing the percentage of projects rated by criterion appears below in table 2. Sixty per cent of the projects were individually rated satisfactory (ratings 4-6) for the summary criteria. This is not the average of the satisfactory ratings for criteria A, B and C.

Table 2  
Percentage of projects rated by criterion

Criteria	Satisfactory (4-6)	Unsatisfactory (1-3)
A	60	40
B	60	40
C	50	50
Summary	60	40