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Enabling poor rural people
to overcome poverty

President's memorandum

Modification of supervision arrangements

Executive Board — Ninety-fourth Session
Rome, 10–11 September 2008

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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Recommendation for approval

The Executive Board is invited to approve a change in the supervision arrangements for 56 projects listed in the table on pages 4-6, whereby supervision by cooperating institutions would be replaced by direct IFAD supervision. If the change is approved, the respective loan agreements will be amended and the letters of appointment of the respective cooperating institutions terminated.

President's memorandum: Modification of supervision arrangements

I. Introduction

1. In line with the provisions of the IFAD Policy on Supervision and Implementation Support approved by the Executive Board in December 2006, the Fund has been progressively increasing the number of projects under its direct supervision and implementation support. As a result, 129 projects were under IFAD supervision as at early 2008 (see appendix).
2. The projects currently under direct supervision fall into three categories:
 - (a) Projects continuing under the Direct Supervision Pilot Programme (5 projects);
 - (b) New projects approved for IFAD supervision by the Executive Board at its sessions from September 2006 to April 2008 (37 projects); and
 - (c) Projects converted from cooperating institution supervision to IFAD supervision through decisions taken by the Executive Board at its April and December 2007 sessions (87 projects).

II. Proposal for converting projects to IFAD supervision

3. As part of the annual performance review and forward planning exercise for 2009, each regional division of the Programme Management Department (PMD) has reviewed the experience gained so far in terms of direct IFAD supervision as well as the appropriateness of the overall arrangements made for supervising the projects in the regional portfolio. Each investment project was reviewed and decisions were taken, on a case-by-case basis, on the supervision modality to be adopted, following an analysis of the quality, cost and effectiveness of the current supervision arrangement. This review process identified an additional 56 projects whose supervision should be transferred from a cooperating institution to IFAD during 2009.
4. A breakdown by region of these 56 projects (see annex) shows that 17 are from Western and Central Africa, 11 from Eastern and Southern Africa, 14 from Latin America and the Caribbean, and 14 from the Near East and North Africa. None are from Asia and the Pacific, since all IFAD-funded projects in that region have already been converted to direct IFAD supervision.
5. Of the 56 projects, 4 are currently being supervised by the African Development Bank, 8 by the Andean Development Corporation, 1 by the Caribbean Development Bank, 1 by the Central American Bank for Economic Integration, 37 by the United Nations Office for Project Services, 2 by the West African Development Bank and 3 by the World Bank/International Development Association.
6. In selecting the projects for direct supervision, PMD attached particular importance to the preference expressed by the government concerned. Subsequently, discussions were held with the cooperating institutions on the proposed conversion to IFAD supervision.

III. Actions taken to enhance IFAD's supervision capability

7. In view of the increasing number of projects under direct supervision, IFAD Management has taken various measures to enhance the Fund's capacity for supervising its projects, as described below.

Organizational arrangements

8. As reported to the Executive Board in December 2007, a Central Supervision Support Unit (SSU) was established in the PMD front office to help build staff

capabilities to handle fiduciary aspects of project supervision, process withdrawal applications and review procurement-related decisions. Similar units have already been established in the Asia and the Pacific, Eastern and Southern Africa, and the Near East and North Africa Divisions. Actions to establish similar units in the Western and Central Africa and the Latin America and the Caribbean Divisions have begun and will be completed by December 2008. The process of decentralizing the fiduciary functions to the regional divisions is progressing in tandem with the capacity build-up in those divisions, and full decentralization will be achieved by end-2008. The tasks assigned to the SSU are being reduced accordingly and once full decentralization is achieved, the role of the SSU will be limited to corporate-level capacity-building and oversight functions.

Staff capacity-building

9. Since its establishment, the SSU has developed a supervision training curriculum and materials, and has held a series of training and other capacity-building sessions. These include:
 - Five-day intensive **supervision training** course, whose 191 attendees included 49 country programme managers, 45 programme assistants, 17 country presence office staff, 14 loan officers/assistants/finance functionaries, 7 technical advisers/regional economists, 6 legal officers, and a number of staff from various departments of IFAD and cooperating institutions;
 - Five sessions of two-day hands-on **loan administration training/coaching**, for programme assistants from PMD and the Office of the Controller;
 - Two sessions of **procurement training** for country programme managers and programme assistants;
 - Three **mis-procurement and audit clinics**; and
 - A variety of other **decision-making, capacity- and awareness-building** activities including a full-day senior management retreat.

Systems and procedures

10. These were developed in the following areas:
 - Definition of corporate quality standards for loan disbursements, internal quality controls for loan disbursements and procurement, including setting up of review and monitoring tools (checklists for withdrawal approval processing, procurement review checklists and internal tracking sheets);
 - Interdepartmental agreements on workflows and formulation of related procedures;
 - Issuance of the Guidelines for Supervision and Implementation Support of Projects and Programmes funded from IFAD Loans and Grants, including a harmonized and upgraded format for project supervision;
 - Preparation of a loan disbursement handbook to be issued in 2008; and
 - Coaching and mentoring of colleagues on a day-to-day basis (a form of help desk service).

IV. Results

11. Since a large share of the 129 projects were brought under direct supervision in the current year, IFAD's involvement in this process started only recently and therefore it is too early to report on results. In view of the critical role this initiative is expected to play in improving IFAD's portfolio performance and ultimately its development effectiveness, IFAD will monitor the quality of its supervision and report regularly to the Executive Board through the Portfolio Performance Report (PPR) and the Report on IFAD's Development Effectiveness (RIDE). This year's portfolio review exercise will be undertaken keeping this in mind, and the PPR and RIDE will be prepared accordingly.
12. Some positive indications of the results of direct supervision have been observed even at this early stage. Overall, the quality of the performance analyses, especially in the case of problem projects, has improved and divisions have started identifying problems that were not reported earlier by the cooperating institutions. This has allowed earlier identification and resolution of performance-related risks that otherwise would be detected only during the loan completion review, when projects are evaluated.
13. Experience so far also shows that cooperating institution reporting of the issues facing the projects was not always adequate or timely. This implies that a significant part of the performance-related risks went unrecognized. In the case of IFAD's major cooperating institution, which is a non-financial entity without an asset base of its own, the risks are multiplied since IFAD ultimately must assume financial responsibility for inadequate performance.
14. Through direct supervision, IFAD is significantly more engaged in the field with borrowers and other stakeholders than in the past, and can quickly adapt projects to the emerging circumstances, if needed. As an example, IFAD has been able to work with governments to make ongoing projects more responsive to the recent food price crisis. As a result of this and the factors mentioned earlier, practically all borrowing Member States have shown preference for direct IFAD supervision.
15. In terms of costs, IFAD has tried keeping this initiative cost-neutral. In fact, experience so far shows that – barring some exceptional cases where, because of inadequate supervision by a cooperating institution in the past, intensive supervision is now required (i.e. "catch-up") – IFAD can undertake supervision at a cost no higher than that of cooperating institutions.

Conclusion

16. With the above-mentioned systems and procedures in place, well-trained staff and appropriate organizational arrangements, IFAD's capacity to supervise projects directly has increased substantially. The conversion of 56 projects to direct IFAD supervision is proposed against this backdrop.

List of ongoing projects proposed for direct IFAD supervision

	<i>Region</i>	<i>Country</i>	<i>Project ID number</i>	<i>Loan no.</i>	<i>Project name</i>	<i>Board approval</i>	<i>Current closing date</i>	<i>Current cooperating institution</i>
1.	PA	Benin	1211	570	Participatory Artisanal Fisheries Development Support Programme	06/12/2001	30/09/2011	AfDB
2.	PA	Burkina Faso	1220	611	Community Investment Programme for Agricultural Fertility	11/09/2003	30/06/2012	BOAD
3.	PA	Burkina Faso	1247	639	Sustainable Rural Development Programme	02/12/2004	30/06/2014	BOAD
4.	PA	Cameroon	1238	606	Roots and Tubers Market-Driven Development Programme	10/04/2003	31/03/2013	UNOPS
5.	PA	Congo	1216	631	Rural Development Project in the Plateaux, Cuvette, and Western Cuvette Departments	21/04/2004	30/06/2012	UNOPS
6.	PA	Gambia (The)	1152	633	Participatory Integrated Watershed Management Project	21/04/2004	31/12/2014	AfDB
7.	PA	Ghana	1187	588	Rural Enterprises Project – Phase II	05/09/2002	31/12/2011	UNOPS
8.	PA	Ghana	1312	670	Root and Tuber Improvement and Marketing Programme	08/09/2005	30/06/2015	World Bank: IDA
9.	PA	Guinea	1135	523	Programme for Participatory Rural Development in Haute-Guinée	09/12/1999	30/09/2011	UNOPS
10.	PA	Guinea	1282	617	Support to Rural Development in North Lower Guinea Project	18/12/2003	30/06/2014	UNOPS
11.	PA	Mauritania	1180	590	Maghama Improved Flood Recession Farming Project – Phase II	05/09/2002	31/03/2010	UNOPS
12.	PA	Niger	1221	597	Project for the Promotion of Local Initiative for Development in Aguié	11/12/2002	31/12/2013	UNOPS
13.	PA	Nigeria	1196	564	Community-Based Agricultural and Rural Development Programme	12/09/2001	30/09/2010	World Bank: IDA
14.	PA	Nigeria	1260	598	Community-Based Natural Resource Management Programme – Niger Delta	11/12/2002	31/03/2014	World Bank: IDA
15.	PA	Sao Tome and Principe	1027	557	Participatory Smallholder Agriculture and Artisanal Fisheries Development Programme	26/04/2001	30/09/2015	UNOPS
16.	PA	Sierra Leone	1054	619	Rehabilitation and Community-based Poverty Reduction Project	18/12/2003	30/09/2011	AfDB
17.	PA	Sierra Leone	1310	8001	Rural Finance and Community Improvement Programme	18/04/2007	31/12/2014	AfDB
18.	PF	Burundi	1105	500	Rural Recovery and Development Programme	28/04/1999	31/12/2009	UNOPS
19.	PF	Burundi	1291	635	Transitional Programme of Post-Conflict Reconstruction	09/09/2004	30/06/2013	UNOPS
20.	PF	Burundi	1358	8002	Livestock Sector Rehabilitation Support Project	18/04/2007	30/09/2014	UNOPS
21.	PF	Madagascar	1239	621	Rural Income Promotion Programme	18/12/2003	30/06/2013	UNOPS

	<i>Region</i>	<i>Country</i>	<i>Project ID number</i>	<i>Loan no.</i>	<i>Project name</i>	<i>Board approval</i>	<i>Current closing date</i>	<i>Current cooperating institution</i>
22.	PF	Madagascar	1318	689	Project to Support Development in the Menabe and Melaky Regions	20/04/2006	30/06/2015	UNOPS
23.	PF	Mozambique	1184	566	Sofala Bank Artisanal Fisheries Project	12/09/2001	30/09/2010	UNOPS
24.	PF	Rwanda	1149	537	Umutara Community Resource and Infrastructure Development Project	04/05/2000	30/06/2011	UNOPS
25.	PF	Rwanda	1232	596	Smallholder Cash and Export Crops Development Project	11/12/2002	31/03/2011	UNOPS
26.	PF	Uganda	1021	442	Vegetable Oil Development Project	29/04/1997	31/03/2010	UNOPS
27.	PF	United Republic of Tanzania	1151	550	Rural Financial Services Programme	07/12/2000	30/06/2011	UNOPS
28.	PF	United Republic of Tanzania	1166	575	Agricultural Marketing Systems Development Programme	06/12/2001	30/06/2010	UNOPS
29.	PL	Brazil	1335	696	Rural Communities Development Project in the Poorest Areas of the State of Bahia	20/04/2006	30/06/2013	UNOPS
30.	PL	Ecuador	1297	650	Development of the Central Corridor Project	02/12/2004	31/03/2014	CAF
31.	PL	El Salvador	1215	579	Reconstruction and Rural Modernization Programme	06/12/2001	30/06/2009	UNOPS
32.	PL	El Salvador	1321	666	Rural Development and Modernization Project for the Eastern Region	19/04/2005		UNOPS
33.	PL	El Salvador	1416	728	Rural Development and Modernization Project for the Central and Paracentral Regions	12/09/2007		UNOPS
34.	PL	Grenada	1181	559	Rural Enterprise Project	26/04/2001	30/06/2009	CDB
35.	PL	Guatemala	1085	518	Rural Development Programme for Las Verapaces	08/12/1999	31/03/2012	CAF
36.	PL	Guatemala	1274	614	National Rural Development Programme – Phase I: the Western Region	11/09/2003	30/06/2013	CAF
37.	PL	Guatemala	1317	651	National Rural Development Programme: Central and Eastern Regions	02/12/2004		CAF
38.	PL	Nicaragua	1256	610	Programme for the Economic Development of the Dry Region in Nicaragua	10/04/2003	31/03/2011	CABEI
39.	PL	Panama	1199	580	Sustainable Rural Development Project for the Ngöbe-Buglé Territory and Adjoining Districts	06/12/2001	31/03/2012	CAF
40.	PL	Peru	1240	602	Market Strengthening and Livelihood Diversification in the Southern Highlands Project	11/12/2002	31/12/2011	CAF
41.	PL	Venezuela (Bolivarian Republic of)	1186	541	Agro-Productive-Chains Development Project in the Barlovento Region	13/09/2000	31/03/2010	CAF

	<i>Region</i>	<i>Country</i>	<i>Project ID number</i>	<i>Loan no.</i>	<i>Project name</i>	<i>Board approval</i>	<i>Current closing date</i>	<i>Current cooperating institution</i>
42.	PL	Venezuela (Bolivarian Republic of)	1252	627	Sustainable Rural Development Project for the Semi-Arid Zones of Falcon and Lara States (PROSALAFI II)	18/12/2003	31/03/2013	CAF
43.	PN	Armenia	1307	653	Rural Areas Economic Development Programme	02/12/2004	31/03/2010	UNOPS
44.	PN	Armenia	1411	730	Farmer Market Access Programme	12/09/2007	31/12/2013	UNOPS
45.	PN	Azerbaijan	1289	637	North-East Development Project	09/09/2004	31/03/2012	UNOPS
46.	PN	Bosnia and Herzegovina	1342	697	Rural Enterprise Enhancement Project	20/04/2006	30/06/2013	UNOPS
47.	PN	Egypt	1204	582	West Noubaria Rural Development Project	23/04/2002	30/12/2011	UNOPS
48.	PN	Georgia	1147	543	Rural Development Programme for Mountainous and Highland Areas	13/09/2000	31/03/2009	UNOPS
49.	PN	Jordan	1295	654	Agricultural Resource Management Project – Phase II	02/12/2004	31/12/2013	UNOPS
50.	PN	Moldova	1265	629	Agricultural Revitalization Project	17/12/2003	30/09/2013	UNOPS
51.	PN	Moldova	1340	686	Rural Business Development Programme	13/12/2005	31/03/2012	UNOPS
52.	PN	Morocco	1178	556	Rural Development Project in the Mountain Zones of Al-Haouz Province	07/12/2000	30/09/2010	UNOPS
53.	PN	Morocco	1230	615	Livestock and Rangelands Development Project in the Eastern Region – Phase II	11/09/2003	30/06/2011	UNOPS
54.	PN	Morocco	1338	685	Rural Development Project in the Eastern Middle Atlas Mountains	13/12/2005	30/09/2015	UNOPS
55.	PN	Syrian Arab Republic	1073	477	Badia Rangelands Development Project	23/04/1998	30/06/2009	UNOPS
56.	PN	Syrian Arab Republic	1233	605	Idleb Rural Development Project	11/12/2002	30/06/2011	UNOPS

Note:

PA: Western and Central Africa Division
 PF: Eastern and Southern Africa Division
 PI: Asia and the Pacific Division
 PL: Latin America and the Caribbean Division
 PN: Near East and North Africa Division

AfDB: African Development Bank
 BOAD: West African Development Bank
 CABI: Central American Bank for Economic Integration
 CAF: Andean Development Corporation
 CDB: Caribbean Development Bank
 IDA: International Development Association
 UNOPS: United Nations Office for Project Services

Number of projects approved, converted, and proposed for direct supervision and those remaining with cooperating institutions

Division	No. of projects in the current portfolio	Of converted, completed	Total portfolio	Converted from CIs			Newly approved as directly supervised							Total No. of projects directly supervised (July 2008)	No. of projects proposed for direct supervision for Sept 08 EB	Total No. of expected under Direct Supervision in 2009	Remaining no. of projects supervised by CIs	CI as % of total
				Dec 06/ April 07	Dec 2007	Total	Sep-Dec 2006	April 2007	Sep 2007	Dec 2007	April 2008	Total newly approved for direct supervision	Pilot					
Western and Central Africa	50	1	51	7	5	12	2	-	1	3		6	1	19	17	36	15	29
Eastern and Southern Africa	48		48	4	16	20	2	3	2	2	1	10		30	11	41	7	15
Asia and Pacific	52	5	57	8	30	38	3		3	2	2	10	2	50		50	7	12
Latin America and the Caribbean	38		38	5	5	10	2	-	1	2	1	6	1	17	14	31	7	18
Near East and North Africa	38		38	3	4	7	3		1	1		5	1	13	14	27	11	29
Grand total	226	6	232	27	60	87	12	3	8	10	4	37	5	129	56	185	47	20