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Enabling poor rural people  
to overcome poverty

## **Response of IFAD Management to the Annual Report on Results and Impact of IFAD Operations evaluated in 2007**

Executive Board — Ninety-fifth Session  
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For: **Review**

## **Note to Executive Board Directors**

This document is submitted for review 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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# Response of IFAD Management to the Annual Report on Results and Impact of IFAD Operations evaluated in 2007

## Introduction

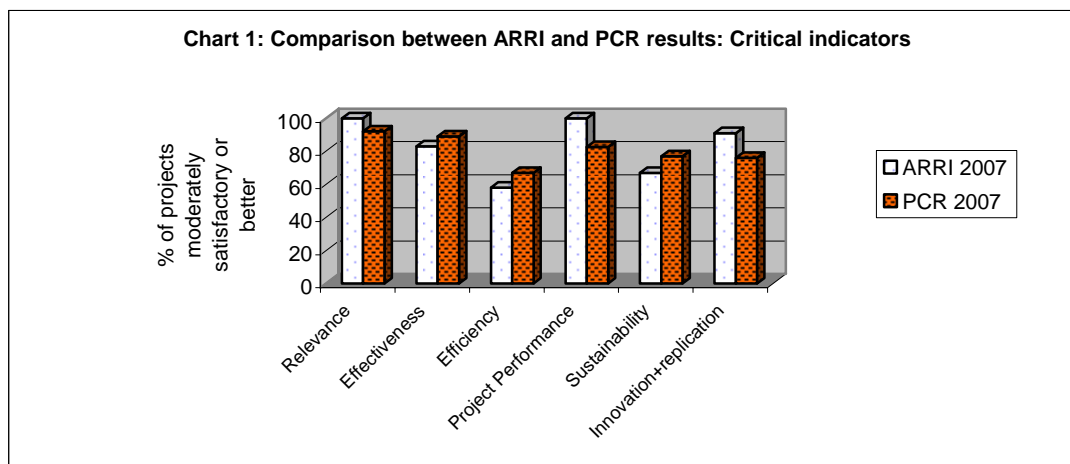
1. This document presents IFAD Management's response to the Annual Report on Results and Impact of IFAD Operations evaluated in 2007 (ARRI) (document EB 2008/95/R.7). Management agrees with the ARRI report's findings and recommendations; and notes that a solid relationship has been established with the Office of Evaluation (OE), as reflected in the number of OE recommendations incorporated in operations (for details see the 2008 President's report on the implementation status of evaluation recommendations and management actions, document EB 2008/94/R.6 + Add.1). The document adds further value by comparing ARRI findings with those of the self-evaluation reports (project completion reports [PCRs]), while also addressing some of the broader performance-related issues identified in the 2007 ARRI report.
2. In recent years, IFAD Management has placed significant emphasis on upgrading its self-assessment systems. As a result, more rigorous quality assessments are put in place at entry, during implementation and at completion. These systems cater to both projects and country programmes, and are monitored annually by IFAD's Results Management Framework (RMF). As part of the overall exercise, Management has reviewed the PCRs of the IFAD projects that closed between July 2007 and June 2008. Since the evaluative criteria and ratings used in this review are the same as those used by OE, these results, with certain caveats,<sup>1</sup> are directly comparable with those generated by the independent evaluations carried out by OE during 2007 and presented in the 2007 ARRI report. An attempt has been made in this note to compare and report the variance (or "disconnect") between the self-assessment and independent evaluations, as this is evolving as best practice among international financial institutions.

## Project performance and overarching factors

3. Concerning relevance, the ARRI report assesses 100 per cent of the projects as having moderately satisfactory performance or better in 2007. The PCR review reports a similar level (92 per cent). This reflects an equally rigorous application of assessment criteria related to country ownership, targeting, gender, etc., which constitute the elements of the relevance indicator. The review finds a slightly better performance for efficiency than does the ARRI report, but the assessments are nearly identical for project effectiveness in achieving development objectives.
4. While steady improvements in project-level efficiency have been noted by both the self-evaluation and the independent evaluation, this is an area where significant reform measures are needed and are being introduced. These include reducing implementation delays; introducing competitive processes for service provisioning; ensuring better coordination of credit availability, input supply and technical services; and providing technical advice through producers' organizations rather than directly to individuals.

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<sup>1</sup> Three factors need to be considered in interpreting the results. First, the PCR review uses results of the completed portfolio only, whereas the ARRI report uses both completed and ongoing projects. Second, the 2007 ARRI report is based on a sample, whereas the PCR review is based on the universe of all completed projects. Third, the latter also means that the ARRI report and the PCR review do not use the same set of projects.

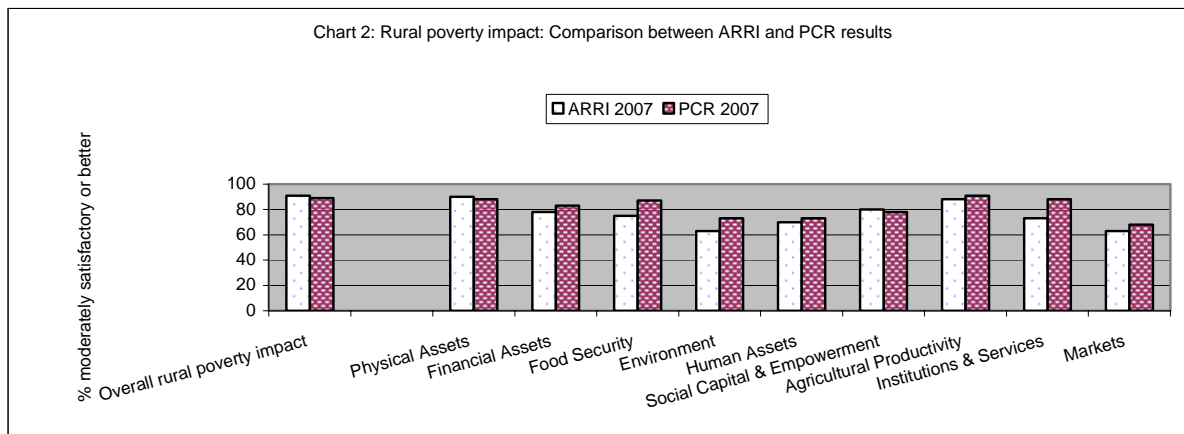


5. The poorest rural communities are often located in the least fertile or more isolated areas, served by the weakest institutions, and frequently also neglected by governments. Implementation efficiency will be challenging in such circumstances.
6. The 2007 ARRI report provides a separate overall project performance rating, finding 100 per cent of the projects to be moderately satisfactory or better. The PCR review uses an average of relevance, efficiency and effectiveness, and finds overall performance to be satisfactory or better in about 83 per cent of projects (again with a much larger sample).
7. The PCR review fully supports the ARRI finding that “there have been steady improvements in sustainability ratings” (paragraph 90), and assigns more than a 75 per cent satisfactory rating overall. IFAD Management has identified sustainability as a key area for improving performance, and to date its strategy is working. As part of the Eighth Replenishment exercise, Management prepared a paper analysing the factors affecting sustainability, highlighting lessons learned from its operations and outlining IFAD’s approach to sustainability. The approach involves addressing sustainability issues right from the design and early implementation phases, promoting national ownership, working with rural communities and their organizations to ensure they own the project, engaging the private sector, emphasizing policy dialogue and partnership-building, and managing risks, including those associated with climate change. As part of its updated operating model, IFAD addresses sustainability throughout the project cycle (document REPL.VIII/3/R.3).
8. The self-assessment results also support the ARRI finding that there has been “very good achievement” in terms of innovation, replication and scaling up (paragraph 47).

### **Rural poverty impact**

9. Among other overarching factors, the ARRI report and the PCRs both assign an almost identical level of about 90 per cent of projects having moderately satisfactory or above impact on rural poverty (chart 2 below). Performance is similarly very high – at about 90 per cent satisfactory or above – for physical assets and for agricultural productivity. Impact performance is good – at about 80 per cent satisfactory – for food security, financial assets, social capital and empowerment.
10. Among the impact domains, market and environmental impacts, while improving, continue to perform relatively less well. Self-assessment results show that where projects have addressed the marketing issue during design as well as during implementation, greater success is achieved in poverty reduction. Access to markets has been enhanced and the terms of market access improved in IFAD-assisted projects thanks to better road connections and access to mobile phones (e.g. the Aquaculture Development Project in Bangladesh and the Participatory

Irrigation Development Programme in the United Republic of Tanzania). These interventions have helped farmers access market-related information and increase their bargaining power. Elsewhere (e.g. the Rural Micro-enterprise Development Programme in Colombia), microentrepreneurs have succeeded in marketing their products through their associations, which has opened up new avenues for their participation in regional and national markets.



11. Overall, with increased realization that market-related issues need to be tackled from the project conception level, IFAD's allocation of resources for market-related components has increased significantly in recent years. With new learning and evolving good practices, a steady improvement in performance is expected.
12. On environmental issues, current performance levels are at a relatively lower level. There are good practice examples that show that where environment-related issues were specifically identified and addressed during design, greater project success has been achieved, as is argued by the ARRI report. For example, the Rural Development Project for the North-Eastern Region in El Salvador had a specific environmental management and conservation component and achieved an 85 per cent adoption rate for the soil conservation techniques it promoted. The project also had an impact at the institutional level, as two municipal environmental units were established in the project area. Similarly, in the Apuseni Development Project in Romania, although no negative impact on the environment was foreseen at appraisal, all project-promoted loans had to be screened by the *judet* (local) environmental protection agency to ensure European Union compliance. This resulted in improvements in the handling of waste and in employee working conditions through reduced air pollution and noise, and increased safety in the operation of rotating power tools.

#### Performance in non-lending activities

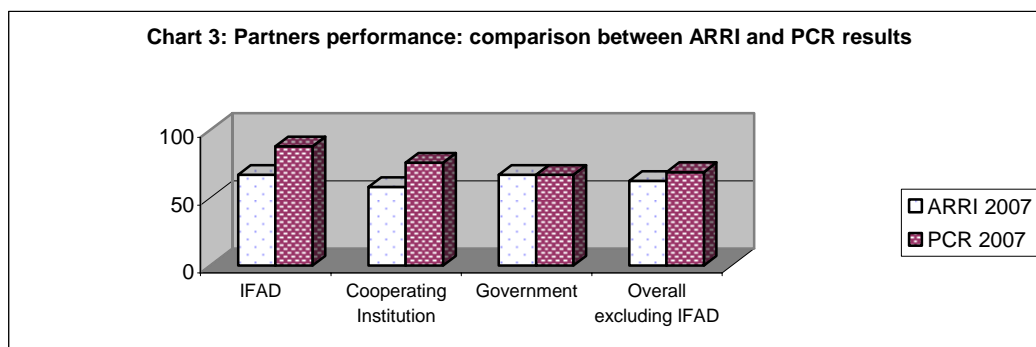
13. IFAD Management agrees with the ARRI finding that IFAD's limited allocation of dedicated financial and human resources for non-lending activities can have adverse impacts on activities such as policy dialogue, partnership-building and knowledge management (paragraph 65). Recent efforts to strengthen IFAD's country presence (which OE has found to be highly beneficial, paragraph 67) and full implementation of the recently approved IFAD Strategy for Knowledge Management and IFAD Innovation Strategy will help the Fund bring about improvements in these areas. IFAD's new approach to the development of results-based country strategies will be its main instrument for improving country programme performance, in particular with regard to policy dialogue. It needs to be recognized, however, that despite these efforts, IFAD's ability to undertake analytical work will remain restricted given the limited resources it can allocate for the purpose. The Fund continues to depend to a significant extent on the analytical work undertaken by organizations such as the Food and Agriculture Organization of

the United Nations (FAO), the International Food Policy Research Institute (IFPRI) and the World Bank, and by Consultative Group on International Agricultural Research (CGIAR) centres.

14. IFAD Management endorses the need for adequately institutionalizing country presence and properly resourcing country presence staff as suggested by the OE report (paragraph 68). Action is currently under way on both of these aspects (the country presence activity plan submitted to the Executive Board last year and a greater budget allocation to country presence in 2008 and 2009). Regarding the balance between agricultural and non-farm investments (paragraph 69), recent projects have focused on both through the value chain approach. However, an “increased focus on commercial, market-oriented agricultural enterprises” as suggested in the ARRI report (paragraph 69) may lead to less success in reaching the most vulnerable households (paragraph 13). While the extent and the nature of the trade-off between a more growth-oriented approach and appropriate targeting aimed at the poorest groups vary from one context to another, the fact that this often involves a difficult balancing act must be better recognized.

#### Partner performance

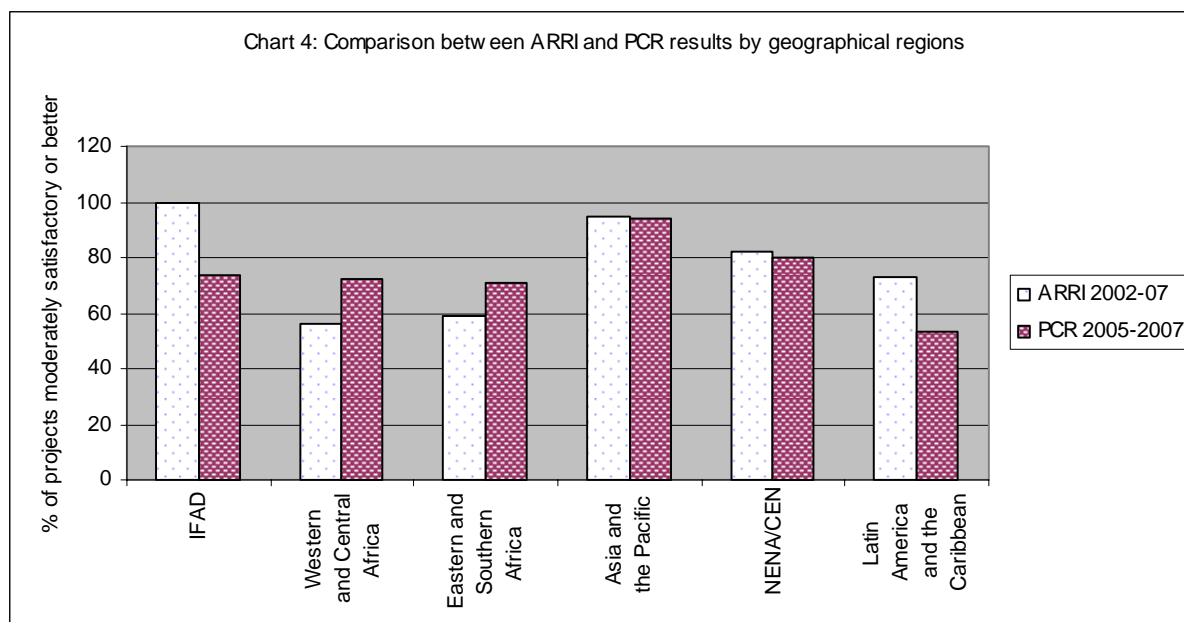
15. Overall, IFAD Management agrees with the ARRI assessment of partner performance. Some variance between ARRI and the PCR review persists in reporting IFAD’s performance, however (see chart 3). The ARRI report identifies two major factors that would explain the generally low IFAD performance: first, comprehensive changes were introduced only recently under IFAD’s Action Plan for Improving its Development Effectiveness and may not have greatly benefited the projects evaluated. Second, “evaluations ... are often more rigorous in assessing IFAD’s own performance” than that of partners (paragraph 92). In addition to these factors, Management believes that IFAD’s performance has suffered because of inadequate engagement in in-country processes for most of the life of the projects evaluated.



16. Despite some variance, both the ARRI report and the PCRs point to a sharp decline in cooperating institution performance in project supervision. This was a major factor in Management’s decision to shift a large number of projects to direct supervision by IFAD itself. Since 56 ongoing projects will be brought under direct supervision in 2009, a decline in cooperating institution performance is likely to have less bearing on the overall level of portfolio performance in 2009 and thereafter.
17. IFAD Management agrees with the independent evaluation that there is a need to strengthen government capacity and forge public/private/civil society partnerships (paragraph 94). As part of the Eighth Replenishment, Management has further analysed these issues in the light of global commitments (e.g. the Action Plan agreed in Accra, Ghana, at the Third High-level Forum on Aid Effectiveness) and evolving best practices. Management has proposed measures for enhancing country ownership, including that of governments and the private sector, in a report presented to the October 2008 replenishment meeting (REPL.VIII/4/R.3).

### External and internal benchmarking

18. Management considers benchmarking with other international financial institutions, carried out as part of ARRI preparation, to be helpful and suggests that the number of institutions included in the exercise be expanded. The ARRI finding that IFAD's performance is comparable to the World Bank's (paragraph 105) is a useful input.
19. In terms of internal benchmarking, the ARRI finding that the "projects evaluated in last two years (2006-2007) have, on average, higher ratings" against almost all the performance indicators is also supported by the results of the self-assessment. In terms of relevance, effectiveness, efficiency and innovation, current performance is either above or close to Action Plan targets, and is greatly improved compared with the results of both the Independent External Evaluation of IFAD and previous ARRI reports.
20. IFAD Management takes note of the ARRI report's comments that sustainability remains a challenge and that OE considers the Action Plan target unrealistic for IFAD to achieve in the near future. The 2006 ARRI report found that the "challenge of sustainability is not peculiar to IFAD, but "one shared with development partners, whether national or local, governmental or donor" (document EB 2007/92/R.7, paragraph 122). Management recognizes that IFAD's project sustainability performance falls short of the Action Plan target set for 2009 and agrees that achieving this target will indeed be difficult. Nonetheless, given the high priority it attaches to sustainability, it prefers for now to retain rather than lower this admittedly ambitious target.
21. In terms of overall project achievement by geographical region, the findings of the self-evaluation compare well with 2006 ARRI findings in the case of the Asia and the Pacific, and the Near East, North Africa and Central and Eastern Europe and the Newly Independent States (CEN) regions (paragraph 111). While PCR results also show relatively lower performance in the Eastern and Southern Africa and Western and Central Africa regions, they do not fully support the degree of performance differentials shown by the ARRI report in these regions (chart 4 below).



22. The results generated by both the ARRI report and PCRs with respect to geographical divisions should be treated as highly indicative and interpreted with great caution given the relatively small sample sizes at divisional level. As the number of evaluations and PCRs increases over time, the results will become more robust at divisional level.

### **Country context and monitoring and evaluation (M&E)**

23. IFAD Management appreciates OE's effort to contribute to learning by examining certain topics in greater depth. The topics chosen this year (namely, the context – in particular fragile states and the middle-income countries) and the M&E analysis were timely and highly relevant. As part of the Eighth Replenishment exercise, Management has analysed the issues related to fragile states (document REPL. VIII/4/R.5) and middle-income countries (document REPL. VIII/4/R.4) and proposed measures to address the concerns identified. These measures are in addition to other efforts under way, for example through the new process for developing country strategic opportunities programmes, the strengthening of IFAD's country presence and greatly expanded direct supervision (ARRI 2007, paragraph 120).
24. As an institution committed to managing for development results, IFAD is engaged in evaluating its performance and in using the findings to make mid-course corrections in the country programmes and projects to improve its performance. In recent years, IFAD's self-assessment systems have been significantly strengthened as has been the periodic review of performance against key indicators. An effective project-level M&E system will constitute the most important element in IFAD's self-assessment system. Management has taken steps to improve project-level M&E (e.g. RIMS). While there are examples of sound M&E systems in IFAD-supported projects, overall arrangements tend to be weak (paragraphs 126 and 127). In the light of this, IFAD Management will undertake the following:
  - (i) Recognizing that the results-based work culture cannot be addressed by IFAD in isolation, and in line with the Paris Declaration on Aid Effectiveness and the Accra Action Plan, IFAD will put more emphasis on working with partner countries and other donors on M&E systems. Where possible, it will also assist in strengthening national statistical systems.
  - (ii) While RIMS impact surveys have a relatively narrow focus (on assets and nutrition only), this very feature makes them attractive and generates some demand for them. Management will follow up with governments and project coordination units to obtain additional surveys. About 40 baseline surveys have already been undertaken by national governments forming the basis of RIMS M&E systems. A synthesis report will be prepared once an acceptable sample size has been reached.
  - (iii) Since the robustness of a particular M&E system depends in part on the project design – in particular on the results framework and the causal chain – IFAD Management will review the project design documentation, including the logical framework and the results framework, and update them as appropriate. These will be reinforced by orientation workshops for staff and key consultants during 2009.
25. IFAD Management welcomes OE's proposal to undertake thematic analyses of markets and the environment in next year's ARRI. It suggests that OE evaluate the performance not just of completed or late-stage ongoing projects on these two themes, but also of the newly designed projects, which, in general, have been paying more attention and allocating more resources to market-related issues. IFAD will introduce a revised environmental assessment procedure in the future.



