

Document: EB 2009/97/R.32
Agenda: 11(f)
Date: 28 July 2009
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

President's memorandum
Modification of supervision
arrangements

Executive Board — Ninety-seventh Session
Rome, 14–15 September 2009

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:

Shyam Khadka

Senior Portfolio Manager
telephone: +39 06 5459 2388
e-mail: s.khadka@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

Recommendation for approval

The Executive Board is invited to approve a change in the supervision arrangements for 19 projects listed in table 1 in the appendix, 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. This increase has been brought about through two different processes:
 - (a) Approval by the Board of new projects for direct supervision. To date, 68 such projects have been approved by the Board (12 in 2006, 21 in 2007, 26 in 2008, and 9 as at April 2009).
 - (b) Conversion of projects from cooperating institution supervision to direct supervision by IFAD. By June 2009, 143 projects had been approved for conversion by the Executive Board (87 in 2007 and 56 in 2008).
2. In addition to the 211 projects approved for or converted to supervision by IFAD, there are four projects that were approved for direct supervision under the Direct Supervision Pilot Programme. Of these 215 projects brought under direct supervision by IFAD, nine have been completed. This leaves 206 projects under direct supervision – or about 82 per cent of the current portfolio of 252 projects.

II. Proposal for converting additional projects to IFAD supervision

3. Among the regional divisions, the Asia and the Pacific Division had converted all of its projects to direct IFAD supervision by December 2007. The Eastern and Southern Africa Division had achieved the same by December 2008.
4. As part of the annual performance review and forward planning exercise for 2010, the remaining three divisions – Western and Central Africa, Latin America and Caribbean, and Near East and North Africa – have analysed the experience gained so far in terms of direct IFAD supervision and the appropriateness of the overall arrangements made for supervising the projects in the regional portfolio. Decisions have been taken, on a project-by-project basis, regarding the supervision modality to be adopted, following an analysis of the quality, cost and effectiveness of the current supervision arrangements. This review process identified an additional 19 projects whose supervision should be transferred from a cooperating institution to IFAD during 2010.
5. A breakdown by region of these 19 additional projects (see table 1) shows that eight are from Western and Central Africa, four from Latin America and the Caribbean, six from the Near East and North Africa, and one from Eastern and Southern Africa.
6. Of the 19 projects, 11 are currently supervised by the United Nations Office for Project Services (UNOPS), four by the World Bank/International Development Association, two by the West African Development Bank, and one each by the Central American Bank for Economic Integration and the Andean Development Corporation.
7. In selecting the projects for direct supervision, the IFAD Programme Management Department (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

8. As reported to the Board last year, IFAD Management has implemented various measures to enhance the Fund's capacity for supervising its projects. Units have been established in all five of IFAD's regional divisions to handle fiduciary aspects of project supervision, process withdrawal applications and review procurement-related decisions. In addition, staff training in supervision and IFAD capacity-building is coordinated out of the PMD front office. In 2009, more emphasis has been placed on providing training in procurement.
9. To ensure that the move to direct supervision of IFAD-financed projects would lead to improved project performance, a process including the following elements was launched:
 - Regular meetings of a direct supervision group under the leadership of the Assistant President of PMD, with inter-departmental representation, to discuss and resolve issues that arise;
 - Regular review of divisional supervision issues by the division directors, involving divisional staff and staff from the Loan and Grant Administration Unit. Selective debriefing meetings held immediately after supervision missions have focused on the quality of supervision, project issues, actions and knowledge sharing;
 - Replenishment of the regional roster of consultants participating in supervision through a recruitment drive to ensure the availability of adequate technical expertise; and
 - Development of an internal management information system, including the tracking of the withdrawal applications.
10. A detailed review was undertaken by the IFAD Office of Audit and Oversight to assess project procurement and disbursements. The review provided valuable inputs indicating a need to upgrade systems related to supervision and loan administration. Using these inputs, together with the lessons learned from direct supervision, the guidelines for project supervision are being revised.

IV. Results

11. IFAD's engagement with direct supervision began relatively recently. A significant number of the projects that are under direct supervision are new projects and are therefore at an early stage of implementation. Although it is too early to fully report on results, initial feedback is overwhelmingly positive. Overall, the quality of the ongoing project performance analyses, especially in the case of problem projects, has improved significantly. Regional divisions have started identifying and helping to resolve problems that were not reported earlier by cooperating institutions. This has allowed earlier recognition and resolution of performance-related risks that otherwise would be detected only during the loan completion review, when completed projects are evaluated, which is too late for problems to be resolved.
12. An early conclusion is that the former arms-length supervision by third party cooperating institutions did not provide an adequate return on investment in terms of efficiency, effectiveness or relevance. It was not sufficiently responsive to the changing needs of IFAD's clients nor to IFAD's focus on improving its development effectiveness.
13. Direct supervision by IFAD has allowed for a more efficient use of IFAD resources by reallocating to supervision overhead payments previously made to cooperating institutions. A further efficiency gain comes from directly connecting IFAD country presence staff to project supervision and implementation support. This has allowed IFAD to undertake its own supervision, by and large, on a cost-neutral basis,

substituting payments to IFAD staff (including country presence staff) for payments to cooperating institutions.

14. IFAD Management has also learned several lessons in implementation support and overall portfolio management. First, it is much more efficient to focus IFAD's limited resources much earlier in the project cycle to proactively manage and reduce risks rather than reactively allocating resources once issues become problematic. For example, all new projects now receive IFAD project start-up missions. Second, supervision should be viewed as a continuous process rather than as an exercise linked to field missions. Third, in-country capacity-building and knowledge sharing is crucial in order to raise the effectiveness of IFAD's limited resources in reducing rural poverty and food insecurity.
15. In terms of building the capacity of IFAD staff, there have been significant achievements. Overall, staff feel more empowered and better equipped to discharge supervision responsibilities. However, this has also led to an increased staff workload. While several performance tracking tools have been developed, there is a need to automate business processes such as loan administration.

V. Partnership with other donor agencies in cofinancing and supervision

16. At the end of June 2009, of the current 252 projects, 46 continued under the supervision of cooperating institutions (table 2). If the current proposal to convert the 19 projects supervised by cooperating institutions is approved, this will reduce the number of such projects to 27. Of these, 16 are with the World Bank, six with UNOPS, two each with the Asian Development Bank and the Central American Bank for Economic Integration, and one with the Caribbean Development Bank. UNOPS is a non-strategic partner as the relationship is limited to the contracting of supervision only, while the other cooperating institutions cofinance projects with IFAD. The projects remaining with UNOPS are nearing completion and thus not suitable for conversion to direct supervision by IFAD. Eventually, UNOPS will no longer be an IFAD cooperating institution.
17. IFAD Management expects the partnership with the World Bank to expand gradually over time, and to involve project cofinancing, joint project preparation and supervision. Similarly, to the extent possible, partnerships with regional development banks, especially the African Development Bank, will be maintained and extended. In managing its relationship with these cooperating institutions, IFAD continues to aim at sharing knowledge and leveraging policy influences in a way that is mutually beneficial for all parties concerned.
18. The direct supervision arrangement has enabled IFAD to respond better to the needs of the donor partners that cofinance IFAD-funded projects during the implementation phase. Of the 206 projects currently under direct supervision, 111 projects have factored in the need for cofinancing. Of these, 106 projects have identified 34 different cofinancing partners. Cofinanciers include the OPEC Fund for International Development (24 projects), the African Development Bank (11 projects), other United Nations organizations (11 projects), and the Global Environment Facility (8 projects). As IFAD is committed to expanding its cofinancing ratio in the future, any contribution that direct supervision makes to enhancing the overall development effectiveness of these projects will play a part also in enhancing that of the cofinancing partners.

VI. Conclusion

19. Most corporate systems and procedures for direct supervision are already in place. While there is still a need to build internal capacity, especially in areas such as procurement reviews, staff have received intensive training in various aspects of project supervision and loan administration. As a result, IFAD's capacity to supervise projects directly has increased substantially. The proposal to convert 19 additional projects to direct IFAD supervision is presented against this backdrop.
20. The current proposal to convert a batch of projects, submitted for the consideration of the Executive Board, is the last in the series of four proposals presented since April 2007. Future proposals will be submitted only on an exceptional basis, should the need arise.

Table 1
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	Cape Verde	1015	510	Rural Poverty Alleviation Programme	08/09/1999	31/03/2013	UNOPS
2.	PA	Chad	1259	607	Kanem Rural Development Project	10/04/2003	31/12/2013	UNOPS
3.	PA	DR Congo	1311	677	Agricultural Rehabilitation Programme in Orientale Province	13/12/2005	30/06/2014	UNOPS
4.	PA	DR Congo	1392	8023	Integrated Agricultural Rehabilitation Programme in Maniema Province	17/12/2008		UNOPS
5.	PA	Guinea	1345	8006	Village Communities Support Project - Phase II	12/09/2007	30/09/2012	World Bank: IDA
6.	PA	Mali	1131	657	Northern Regions Investment and Rural Development Programme	19/04/2005	31/12/2013	BOAD
7.	PA	Mali	1356	704	Kidal Integrated Rural Development Programme	14/12/2006	31/03/2015	BOAD
8.	PA	Mauritania	1255	618	Oasis Sustainable Development Programme	18/12/2003	30/06/2013	UNOPS
9.	PF	Uganda	1197	591	Rural Finance Services Programme	05/09/2002	30/09/2011	World Bank: IDA
10.	PL	Bolivia	1145	540	Management of Natural Resources in the Chaco and High Valley Regions Project	13/09/2000	31/03/2010	CAF
11.	PL	Honduras	1407	759	Project for Enhancing the Rural Economic Competitiveness of Yoro	13/12/2007	30/06/2016	BCIE
12.	PL	Nicaragua	1120	529	Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	09/12/1999	31/12/2013	World Bank: IDA
13.	PL	Paraguay	1333	667	Empowerment of Rural Poor Organizations and Harmonization of Investments (Paraguay Rural) Project*	19/04/2005	31/03/2014	UNOPS
14.	PN	Djibouti	1236	603	Microfinance and Microenterprise Development Project	11/12/2002	30/06/2013	UNOPS
15.	PN	Djibouti	1366	8016	Programme for the Mobilization of Surface Water and Sustainable Land Management	13/12/2007	30/06/2015	UNOPS
16.	PN	Tunisia	1213	593	Agropastoral Development and Local Initiatives Promotion Programme for the South-East	05/09/2002	31/12/2010	UNOPS
17.	PN	Tunisia	1299	687	Integrated Agricultural Development Project in the Governate of Siliana - Phase II	13/12/2005	31/12/2013	UNOPS
18.	PN	Yemen	1269	638	Al-Dhala Community Resources Management Project	09/09/2004	30/09/2015	World Bank: IDA
19.	PN	Yemen	1293	669	Pilot Community-Based Rural Infrastructure Project for Highland Areas	19/04/2005	30/09/2011	UNOPS

Note:

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

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

* The appointment of UNOPS as cooperating institution for Grant no. 959 to the Federation of Production Cooperatives for the Programme for the Development of Rural Finance Networks in the Republic of Paraguay shall be terminated concurrently with termination of Loan 667 PY.

Table 2
Number of projects approved, converted, and proposed for direct supervision and those remaining with cooperating institutions

Division	No. of projects in current portfolio (June 2009)	No. of projects converted, completed	Converted from cooperating institution supervision					Approved as directly supervised										No. of projects directly supervised (June 2009)	No. of projects supervised by CIs (June 2009)	No. of projects proposed for direct supervision (Sep 2009)
			Apr 2007	Dec 2007	Sep 2008	Dec 2008	Total	2006	Apr 2007	Sep 2007	Dec 2007	Apr 2008	Sep 2008	Dec 2008	Apr 2009	Total	DS Pilot			
Western and Central Africa	57	1	7	5	17	-	29	2	-	1	3	-	3	2	3	14	1	43	14	8
Eastern and Southern Africa	52	2	4	16	11	-	31	2	3	2	2	1	3	2	2	17		46	6	1
Asia and the Pacific	59	6	8	30	-	-	38	3		3	2	2	-	4	3	17	1	50	9	-
Latin America and the Caribbean	43		5	5	13	1	24	2	-	1	2	1	1	3	1	11	1	36	7	4
Near East and North Africa	41		3	4	14	-	21	3		1	1	-	3	1	-	9	1	31	10	6
Total	252	9	27	60	55	1	143	12	3	8	10	4	10	12	9	68	4	206	46	19

