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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 2008

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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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I. Introduction

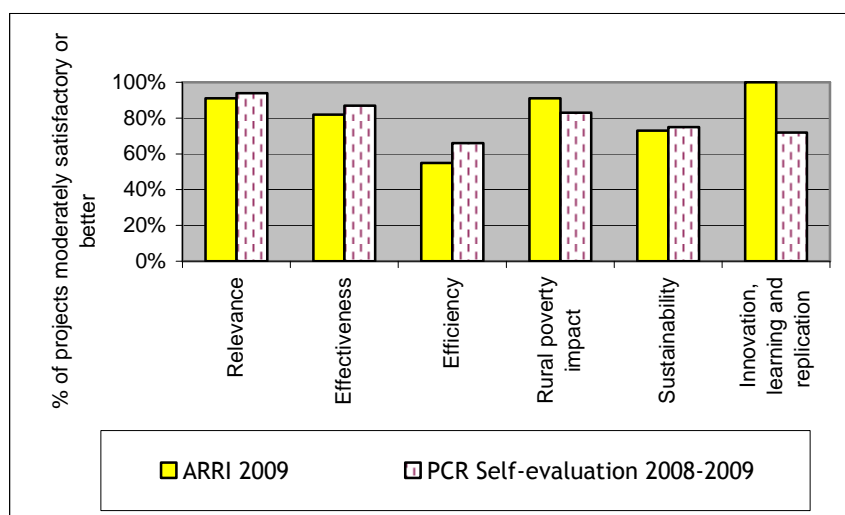
1. In line with the decision of the Executive Board in September 2004 and the subsequent decision on performance reporting to the Board (see documents EB/95 and EB/92/Rev.1), Management reports on how it is responding to the Annual Report on Results and Impact of IFAD Operations (ARRI) in its handling of the ongoing portfolio through the Report on IFAD's Development Effectiveness. The present note therefore provides Management's response to some of the specific issues raised in this year's ARRI report.
2. In addition to presenting a synthesis of the results and impact reported in the evaluations undertaken in 2008, the ARRI reviews selected country strategic opportunities programmes and projects that entered the pipeline in 2008. Other new features include the analyses of performance using three-year moving averages and use of the new Evaluation Manual. The new manual reduces the number of impact domains and applies a more comprehensive definition of project relevance.

II. Comparison between self-evaluation and independent evaluation findings

3. IFAD Management's self-assessment of 52 completed projects in 2008 and 2009 shows very similar results to those of the ARRI. While the two reviews are not strictly comparable, a comparative analysis can provide insight into identifying the areas that were over- or under-performing. For this reason, a chart has been prepared to compare the two sets of findings.
4. The ARRI results presented below are based on seven evaluations undertaken in 2008 by the Office of Evaluation. These covered 11 projects in seven countries. The self-assessments were for 52 completed projects in 41 countries, reviewed in two separate cohorts in 2008 and 2009. If analysed separately, the 2009 self-evaluation results show overall better performance than the results for 2008.

Chart 1

Comparison between self-evaluation and independent evaluation results, 2008-2009



Note: PCR: project completion report

5. As can be seen in chart 1, the ARRI and self-evaluation results are almost identical for relevance and sustainability. In terms of rural poverty impact and innovation/scaling-up, ARRI reports higher performance than the project completion reports (PCRs), but the

findings of both are in the satisfactory range. In contrast, PCRs reveal higher performance for efficiency and for IFAD and government performance as partners. Overall, the difference is not marked and the results of the self-evaluations and independent evaluations point in the same direction.

III. Overall performance and areas requiring further attention

6. IFAD Management also notes the ARRI finding that IFAD's overall performance has improved significantly over the past several years in terms of broad indicators of project performance and project achievement. This improvement has been observed despite the fact that in evaluations undertaken in 2008, the Office of Evaluation (OE) used a more comprehensive and thus more rigorous criterion to assess relevance (ARRI, paragraph 16). Similarly, the report noted that sustainability has improved steadily over the past few years and that performance in terms of innovation has been laudable. Significant improvement in rural poverty impact is also evident, since 91 per cent of the projects evaluated were found to be moderately satisfactory or better.
7. In terms of trends, IFAD Management's self-assessment is consistent with the ARRI finding that "... there is a steady upwards trend in results across all but a few evaluation criteria since 2002." (paragraph 172.) The use of the knowledge generated by the self-assessments confirms the ARRI finding that "... on the whole IFAD is adequately incorporating lessons learned and good practices from past experiences into new strategies and projects." (paragraph 173.) Management agrees with the ARRI finding that the performance criterion for **efficiency** continues to be a concern (paragraph 175) and that IFAD needs to improve its performance in the impact domains of **markets** and **natural resource management and environment** (paragraph 183).
8. Management's views on the above findings and on two additional 2008 ARRI themes – **IFAD's performance in Africa** and **the role that governments play** in project performance – are presented below.

Efficiency

9. Against this criterion, the three-year moving averages are better than the 2008 results (62 per cent and 55 per cent respectively). The low level of performance in 2009 – as measured in the ARRI – is most likely explained by random variations characteristic of the small sample taken by ARRI every year for aggregate assessment. However, IFAD Management's own self-assessment confirms the ARRI finding, based on three years' data, that only about two thirds of the projects show moderately satisfactory or better performance for efficiency. A review of the cohort of projects reviewed by Management indicates that this lower efficiency is the result of a combination of factors such as poor service delivery, implementation delays and high operating costs. The review of PCRs found that weak or hurried project design often leads to serious implementation problems and an inefficient project. The main design weaknesses noted in the 2009 cohort of the PCRs reviewed were: (i) poorly focused or complex designs; (ii) inappropriate approaches, in particular for targeting; (iii) underestimation of costs; and (iv) complex implementation arrangements.
10. The economic inefficiency at the project level is also explained in part by frequent overestimation of local implementation capacity, resulting in inordinate delays in implementation, a consequent extension of project implementation periods and high project management costs. Of the 2009 cohort of completed projects reviewed, this dynamic was clearly observable in Cameroon and Zambia, where operating costs more than doubled with respect to the appraisal estimates. Such inefficiencies are sometimes caused by factors beyond the control of the governments or IFAD. In Argentina and The former Yugoslav Republic of Macedonia, for example, political instability and civil unrest affected project implementation, and loan extensions were granted to allow strategically important projects to reach their targets.

11. In addressing the problems of inefficiency at the project level, IFAD's efforts are geared towards: (i) simplifying project design; (ii) setting more realistic project goals; and (iii) improving the implementation readiness of the project at entry. In addition, it is important that in extending a project's implementation period, IFAD considers the likely impact on project efficiency by comparing incremental project management costs and the incremental benefits accruing from such extension.

Natural resource management and environment

12. The 2008 cohort of 11 OE evaluations shows a low performance in terms of natural resource management (NRM) and environment. The three-year moving average shows a better performance, indicating that the 2008 result is of an exceptional nature.
13. This domain, however, needs improvement as performance here is weaker than in others domains. Realizing this, IFAD has recently taken some new initiatives. These include:
 - (i) revision of IFAD's Environmental and Social Assessment Procedures to reflect emerging best practices (presented to the Executive Board in April 2009);
 - (ii) introduction of procedures for strategic environmental assessments at the results-based country strategic opportunities programme stage; and
 - (iii) setting up of an Eastern and Southern Africa helpdesk.
14. IFAD's Global Environment Facility Unit – now renamed the Global Environment and Climate Change Unit – has been upgraded and is mandated to deal with issues related to climate change as well as the GEF. Notwithstanding the effort it has made in building internal capacity, IFAD now actively collaborates with external institutions across a wider range of relevant NRM and environmental areas (such as land, climate change and water) through partnerships. It also participates in selected communities of practice, which share experiences on specific sustainability themes, such as climate change, participatory mapping and ecosystem services.

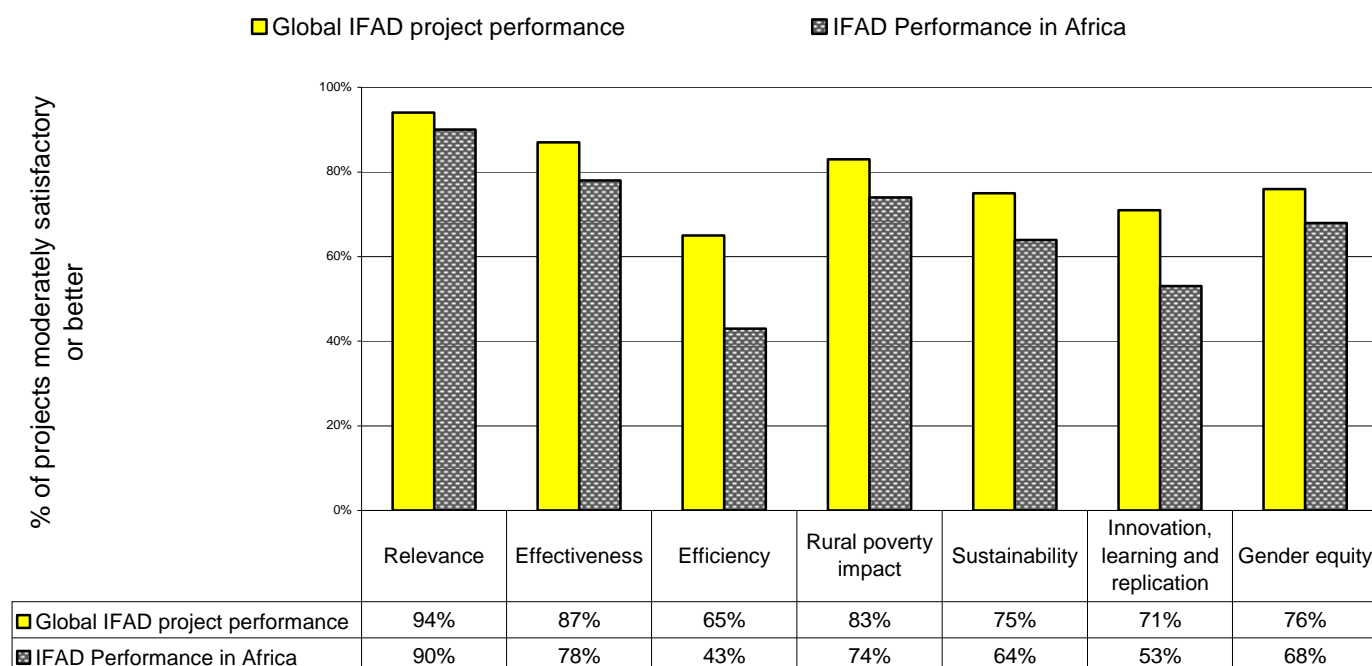
Markets

15. Improving the rural poor's access to markets is an area where performance has been relatively low and improvement only marginal over the years. This is explained by a number of factors. First, market development has not constituted an explicit objective in many IFAD-assisted projects: many projects are focused on primary production geared towards enhancing household food security through increased production of staples for self-consumption. Second, even when a project results in surplus production, the volume is often inadequate to reach the urban or export market. Third, where market constraints are identified, the level of resources that IFAD can provide has often been inadequate to address marketing constraints, as these require large investments in infrastructure or financing by private companies.
16. IFAD has recently increased its focus on markets. New projects address market issues through value chain analysis. Consequently, investment in market-related components is on the increase.

Performance in Sub-Saharan Africa

17. This year's ARRI concludes that while the performance of IFAD operations in sub-Saharan Africa is comparable with that of other multilateral development banks, its performance is lower in sub-Saharan Africa than in the other three regions of operation. A sub-aggregation of the results shown in the 23 PCRs reviewed in 2008 and 2009 (self-evaluation) confirms this finding. As can be observed from the following chart, the performance differential between projects in Africa and projects in other regions is particularly high in terms of the economic efficiency, likelihood of sustainability of benefits, and innovativeness and replicability. While performance is also lower in Africa for relevance, effectiveness and rural poverty impact when compared to other regions, the differential is less marked in these impact areas.

Chart 2

Comparative project performance: Global and for Africa – self-evaluation

18. IFAD Management agrees with the ARRI's assertion that Africa's challenging context explains relatively weak performance and heterogeneity of results. Management's assessment points to the need to build government capacity as suggested in the self-evaluation results shown below.

Partner performance: Global and for Africa – 2008-2009 (self-evaluation)

(percentage)

	Global	In Africa
IFAD	87	76
Cooperating institution	80	73
Government	75	57

Government performance

19. The above table supports the ARRI finding that government performance is among the most important factors in making a lasting impact on rural poverty. Its importance has long been noted by other international financial institutions.¹ IFAD's response has mostly taken the form of support to build local institutions – those of both the target group and local government. IFAD's success in building these institutions and empowering the rural poor has been significant (see Report on IFAD's Development Effectiveness, EB 2009/98/R.10). However, IFAD's instruments and the scale of its assistance are not suitable for pursuing large-scale support for overall government institutional capacity. Working within this constraint, IFAD will continue helping to build government capacity with regard to design and implementation of rural poverty reduction projects and programmes. IFAD has increased its focus on good governance in recent years and will continue to do so. IFAD will partner with international agencies that can complement its efforts through larger-scale projects and programmes for institutional capacity-building.

¹ See 1997 Annual Review of Development Effectiveness, World Bank; and Special Evaluation Study of Factors Affecting Project Performance in the Agriculture and Rural Sectors, A Review of Post Evaluation Reports between 1991 and 1997, Asian Development Bank, December 1998.

IV. Management's response to specific recommendations

20. IFAD Management appreciates the emphasis placed by ARRI (2008) on learning, particularly in connection with the detailed assessment of markets and NRM and environment issues. These constitute priority areas for effecting improvement in IFAD operations. The recommendations pertaining to markets (paragraph 143) and the factors to be considered when preparing the forthcoming natural resources and environment policy (paragraph 160) are useful. Management has taken note of the recommendations made with respect to the link between natural resources and the environment (NRE) policy and climate change and will endeavour to strike a balance and ensure appropriate sequencing between the two. With respect to the recommendation to prepare a policy and implementation guidelines for NRE and a climate change strategy (paragraph 162), Management will ensure close coordination in its work, through teams with overlapping membership. Should appointing a single coordinator prove difficult, Senior Management will ensure appropriate coordination between the teams.
21. On the content of future ARRIs, IFAD Management agrees with most of the recommendations cited in paragraph 170, particularly with the recommendation that greater attention be given to learning and to explaining the "whys". However, IFAD Management has reservations about the idea of ARRI including a quality-at-entry review (paragraph 170, bullet 2), a task currently conducted through an arms-length exercise managed by the Office of the Vice-President, which requires significant financial resources and Management time. With respect to the follow-up of evaluation recommendations, Management submits a special report every year to the Board in the form of the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions (PRISMA). The new proposal from OE should take into account the work by the Office of the Vice-President, in order to avoid duplication of organizational processes.
22. IFAD Management generally agrees with OE's finding that insufficient resources are allocated to policy dialogue (paragraph 58). Management also recognizes the need for enhanced analytical work and policy dialogue by IFAD. However, given that institutions such as the World Bank are better suited to such work, IFAD will undertake policy and analytical work very selectively and will explore ways to allocate additional resources, as recommended by ARRI 2008. IFAD is working to improve the partnership with the World Bank and the Food and Agriculture Organization of the United Nations in analytical and policy areas. Recent examples are the work in the area of gender and private investment policies. Furthermore, IFAD's engagement in national, regional and global policy dialogue will be strengthened by the creation of the position/office of Chief Development Strategist and the imminent reconfiguration of the Policy Division.
23. In principle, there is no disagreement on IFAD's adoption of a differentiated approach to country resource allocation. IFAD uses the performance-based allocation system to allocate programme resources, which – by using rural income as the criterion – provides more resources to countries where per capita rural incomes are lower. As administrative resources are assigned in line with the programmatic resources allocated to a particular country, the principle of differential allocations is being applied to a large extent. It is important that the resource allocation system does not penalize performance. IFAD's current performance-based allocation system internalizes this consideration by incorporating country performance as a factor in allocating programme resources. These allocations are in part determined by an assessment of rural sector performance, specifically of the rural sector policy and institutional framework in each IFAD recipient country. As such, it responds to two contrary pulls, allocating more money to countries with low income, but less to countries with poor performance.