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Investing in rural people

Response of IFAD Management to the 2020 Annual Report on Results and Impact of IFAD Operations

Note to Evaluation Committee members

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For: Review

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Note to Executive Board representatives

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Executive Board — 130th Session
Rome, 8-11 September 2020

For: Review

I. Introduction

1. Management welcomes the 2020 Annual Report on Results and Impact of IFAD's Operations (ARRI) and appreciates the constructive engagement with the Independent Office of Evaluation of IFAD (IOE) on enhancing the learning role of the ARRI in order to improve the Fund's development effectiveness. This is evident in the changes made to the 2020 report, which reflect IOE's efforts to streamline and reduce the length of the report, the enhanced focus on learning by markers and qualitative analysis, and the removal of recommendations.
2. Overall, Management finds the ARRI analysis thorough and the report balanced. Management agrees with its key conclusions and appreciates IOE's recognition of areas where Management has made good progress, including environment and climate change, recent positive shifts in efficiency and sustainability and the ability of IFAD's programmes to adapt well to changing contexts.
3. At the same time, Management recognizes the areas where further sustained efforts are needed, such as strengthening the linkages between the lending and non-lending portfolio; designing realistically, bearing in mind implementation capacities; supporting project management units (PMUs) during implementation in order to improve government performance, particularly on sustainability and efficiency. Management's self-evaluation system has highlighted the same areas in recent years; indeed a number of recent reform initiatives and the Eleventh Replenishment of IFAD's Resources (IFAD11) commitments have targeted these areas, including capacity-building initiatives, decentralization to provide closer and greater support at the country programme level, increased attention to policy engagement and country-level programmatic approaches.
4. The Management response focuses on three forward-looking aspects: (i) addressing methodological concerns related to aggregate reporting using ratings as the sole measure of performance and results; (ii) strengthening the complementarities between the self- and independent evaluation systems to enhance the learning dimension in order to improve development effectiveness; and (iii) areas of focus for Management in light of the performance trends highlighted by the 2020 ARRI.

II. Limitations of aggregate ratings in assessing performance and results

5. Management believes that IFAD's evaluation systems, both self and independent, rely more heavily on ratings-based assessments than comparator organizations.¹ Although both systems follow the criteria used by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD/DAC), IFAD goes beyond the standard dimensions to include IFAD-specific ratings, which increases the number of criteria rated.² As ratings are subjective assessments, albeit based on evidence, ratings at completion alone cannot be used as a performance measure and need to be triangulated with objective performance indicators such as outcome and impact assessments, output-level data and other indicators such as disbursements (for efficiency) and cofinancing (for ownership and partnerships). Independent evaluation and the ARRI, in contrast, primarily use subjective ratings from projects completed in the past as a means of assessing performance and results. The Report on IFAD's Development Effectiveness (RIDE),

¹ IFAD rates a larger number of criteria. For example, the World Bank only rates three criteria at completion – achievement of development objective, the Bank's performance (including design and supervision) and partners' performance.

² The standard OECD/DAC criteria are effectiveness, sustainability, efficiency and relevance. In addition to these, IFAD rates criteria such as scaling up, gender, environment and natural resource management, climate change, institutions and policies, and rural poverty impact, which are quite challenging to assess through project ratings.

in contrast, uses a range of indicators across the three tiers of the Results Management Framework (RMF) to assess the institution's holistic performance.³

6. The 2020 ARRI states, "an important caveat to be noted is that results of the IFIs may not be comparable: the method of aggregation of project performance is not uniform across the IFIs both in terms of the criteria used in aggregation (for example, the World Bank does not include sustainability in aggregate performance but IFAD, AsDB and AfDB do) and how calculation of the final value of the rating is done".
7. In light of this important methodological caveat and the fact that IFAD typically targets the poorest and makes "last mile" interventions within the agricultural sector, it is difficult to draw meaningful conclusions based on an agricultural portfolio-wide comparison between IFAD and other multilateral development banks (MDBs). As such, the comparator analysis in the ARRI should be viewed with caution and perhaps not be included in its current form going forward. It would be more relevant to compare for example, IFAD's outreach, outcomes and output-level data in the agriculture sector vis-à-vis comparator organizations, adjusting to the relative size of the organization.
8. IFAD Management is also moving to align its corporate RMF with those of other MDBs, by focusing less on ratings as a metric of results, and more on objective outputs and outcomes to demonstrate the achievement of results. Management is also working on revising its project completion reporting in the context of the review of its self-evaluation products, improving its outcome measurement through the introduction of core outcome indicator surveys and refining the selection criteria used for impact assessments in light of IOE's comments. Management believes that IOE's revised product mix could also reflect on the limitations of ratings-based assessments to reach conclusions on performance and results and strike a better balance between ratings – primarily an accountability measure – and learning through evaluative evidence.
9. **In this context, Management looks forward to working with IOE and external experts to assess IFAD's ratings system⁴ and methodology⁵ and refine its approach for both self- and independent evaluation in the context of the revision of the evaluation manual.** As detailed in annex II, Management believes that this review could also look into issues that affect both the project completion analysis in the RIDE and the ARRI analysis. These include the extent to which perceived declines could be due to either changes to definitions of indicators, more rigorous quality assurance reviews that were put in place since 2015, or the small cohort of projects completing in any three-year rolling period causing fluctuations and dips in three-year rolling average ratings.

III. Strengthening complementarities between the self- and independent evaluation systems to enhance learning

10. Following the peer review of the evaluation function that concluded in 2019, Management believes that IFAD has a unique opportunity to be innovative in refining the self- and independent evaluation systems to enhance their contribution to the Fund's overall development effectiveness.
11. **Management believes that independent and self-evaluation are mutually reinforcing and complementary systems that should seek to enhance accountability and learning to improve development impact. At the same**

³ Refer to annex I.

⁴ The peer reviewers had also highlighted limitations with the use of ratings in an earlier version of the peer review report. However, this annex was not included in the final version.

⁵ Refer to annex II.

time, the two have distinct roles and responsibilities in the broader evaluation architecture with a common goal of improving development results. As the peer review notes, “responsibility for reporting to the Board on institutional performance lies with Management, as does responsibility for an effective results and performance monitoring framework” with IOE “providing independent and credible findings to Board and Management”.⁶

12. Since the introduction of the Development Effectiveness Framework in 2016, Management has made efforts to enhance its focus on results and performance. The strong systems, checks and balances and corporate attention to quality in the portfolio can be seen in the performance improvements noted in the RIDE on a range of indicators and in the strong development impact that IFAD’s projects achieve.
13. To recall the peer review, “Management-side advances in results management and performance reporting systems can be expected to feed into the RIDE. The RIDE should continue to be produced and closely reviewed by the Board, consistent with the fact that responsibility for project-level performance reporting lies in the first instance with Management, not IOE”.
14. The peer review further stated that this “opens the possibility for IOE to repurpose the ARRI, making it a distinctively different but still strongly performance-focused document. A revised ARRI could focus more on broader and more topical issues affecting institutional performance; give greater prominence to IOE’s more strategic work for which there is greatest Board interest; and, provide comment, even periodic verification, on the RIDE, with suggestions for strengthening.”
15. Management has committed to revising the Development Effectiveness Framework in advance of IFAD12 and further strengthening the results and performance reporting that feed into the RIDE. This also opens the opportunity for IOE to further streamline the ARRI so that it focuses entirely on strategic areas of performance rather than presenting aggregate performance on each indicator annually, given the limitations of the methodology highlighted by Management.⁷

IV. Areas of focus for Management in light of the 2020 ARRI conclusions

16. Although the 2020 ARRI does not include specific recommendations, it does include key conclusions. It notes that overall the majority of the ratings are in the moderately satisfactory zone. The areas showing positive performance are environment and natural resource management, relevance and IFAD’s performance. Relatively weaker performance (although still largely in the moderately satisfactory zone) is noted on most other indicators with the exception of three that lag behind more significantly – efficiency, sustainability and government performance. In the latest cohort, the ARRI indicates that performance on efficiency and sustainability has improved over previous years but that government performance continues to decline. In light of the ARRI conclusions, Management believes these three areas require further attention.
17. **First, as noted in the RIDE, IFAD projects have performed well at design; however, as noted in the 2019 ARRI, design needs to be a living blueprint and challenges often emerge during implementation,** particularly due to weak implementation capacities and expertise in PMUs, which negatively affect project efficiency. Management agrees on the importance of PMU capacity and expertise, and government ownership. This is the most challenging area for IFAD to address and the one in which it has the least direct control. Investments are being made by IFAD in capacity-building of PMU staff in such areas as results-based

⁶ EB 2019/127/R.13.

⁷ Refer to annex II.

management, procurement, financial management and monitoring and evaluation. However, IFAD recognizes that building capacity alone is not enough. On a practical level, efforts are being made to ensure, for example, performance based contracts for PMU staff and early staffing of PMUs through the use of the Faster Implementation of Project Start-up (FIPS) instruments. Nonetheless, Management would appreciate IOE's suggestions on additional steps that can be taken to enhance the capacity and performance of PMUs beyond the actions already initiated by Management.

18. Management is focusing strongly on the quality of the portfolio during implementation. The number and percentage of projects at risk remain at a low level compared to IFAD10 and comparator institutions (less than 15 per cent); an index measuring proactivity has increased to its highest level ever (77 per cent from 50 per cent, a direct result of incentives provided by the restructuring policy approved by the Executive Board in 2018). Management believes that decentralization and the increasing mass of operational and technical staff outposted will lead to greater proactivity in portfolio management and support to PMUs during implementation.
19. **Second, sustainability of benefits is an area of concern for Management, as lagging performance has been noted by both the RIDE and the ARRI.** For IFAD12, Management will commit to putting in place an action plan to improve post-project sustainability. To this end, Management has initiated some actions such as the inclusion of exit strategies at design. However, Management recognizes that more needs to be done, particularly on monitoring exit strategies through implementation and greater engagement with the government at the policy level. A key aspect where Management proposes to work with IOE is on strengthening the definition and measurement of sustainability of benefits. Currently at completion, the assessment of sustainability tends to focus more on sustainability of activities rather than sustainability of impact. Management believes IOE could play a leading role in ex post assessments of sustainability of impact to determine to what extent gains achieved through IFAD-financed projects endure after activities cease. Further insights into the drivers of this area would also be welcome from IOE.
20. **Finally, Management agrees that synergies between lending and non-lending activities could be further strengthened.** As a result of the new country strategic opportunities programme (COSOP) guidelines issued in early 2019, quality assurance reviews have noted greater consistency and alignment with national priorities. Nonetheless, more attention and resources need to be devoted to non-lending activities at the country programme level. Policy engagement with the Government is of critical importance and the thrust of IFAD's decentralization agenda. Through the updated decentralization metrics that are currently under way, IFAD is seeking to free up the time for country directors to engage at a more strategic level with the Government.
21. IFAD is also paying more attention to measuring non-lending activities. This is evident in the recently developed corporate knowledge management action plan and the partnership framework, which include key indicators to assess and measure performance. In addition, IFAD has refined its stakeholder survey to make it a more robust and reliable tool to collect feedback at the country level on IFAD's performance on non-lending activities. At the same time, it is important to highlight that non-lending activities are hard to measure and quantify; therefore, despite these advances, not all results and impact in this area can be captured adequately. The measurement of these is a challenge not only for IFAD but for other organizations as well.

V. Looking ahead

22. Management appreciates IOE's efforts to deepen the engagement and exchange with Management on the ARRI. In this context, Management values the interactions IOE held across the house on the ARRI prior to its finalization.
23. Management looks forward to continuing to work constructively with IOE under the overall guidance and oversight of the Evaluation Committee and Executive Board on the revision to the evaluation policy, evaluation manual and the product mix to ensure that the evaluation function (both self- and independent) maximizes its contribution to the Fund.

Comparison of RIDE and ARRI

Although RIDE and ARRI complement each other, they are not directly comparable reports. Management and IOE are working together to ensure that the two reports are mutually reinforcing and serve as management tools to enhance the development effectiveness of the Fund. The scope and characteristics of each are summarized below.

	<i>ARRI</i>	<i>RIDE</i>
PURPOSE	The ARRI is an annual synthesis report prepared by IOE based on evaluations conducted in past years. The ARRI should be more focused on learning than on accountability as the peer review noted that responsibility for reporting on institutional performance lies solely with Management, while IOE, through their independent analysis, can provide input and guidance to the Executive Board.	The RIDE is an annual report prepared by Management to track progress against the agreed Results Management Framework (RMF) for a replenishment cycle. The RIDE has a strong accountability focus given that it is the tool used by Management to report on indicators and targets agreed with IFAD's Governing Bodies.
SCOPE	The ARRI is a synthesis report based entirely on project completion report validations/project performance evaluations and country strategy and programme evaluation (CSPEs) undertaken by IOE. It aggregates ratings from past performance. The ARRI relies almost entirely on ratings derived from validations of project completion reports to assess IFAD's development effectiveness (the robustness of ratings themselves have been questioned by the peer review). The ARRI does not report on concrete results achieved such as outputs, outcomes or impact.	RIDE measures the Fund's holistic performance through a range of indicators at different levels: portfolio management, design, organizational efficiency, project-level impact and outputs, in consistency with the agreed RMF for each replenishment. The RIDE reports on concrete results such as outputs, outcomes and impact.
STRUCTURE	The ARRI is a dense and lengthy report with extensive analysis and multiple annexes (though notably shorter in 2020).	The RIDE maintains a 5,500-word limit and reports on the various tiers of the RMF, covering both operational and institutional performance. The number of annexes is growing in response to increasing reporting requirements and commitments made to the Executive Board.
DATA	The ARRI relies on aggregate ratings of projects that have completed to report on performance and draw conclusions and trends.	The RIDE reports on numerous indicators across the different tiers. Only a subset of tier II indicators relate to projects that have closed.
AGE OF THE PORTFOLIO UNDER REVIEW	The ARRI reports entirely on projects that completed at least two years ago with the bulk completing even earlier.	The RIDE reports on projects that have closed up until the previous year in tier II. It also reports on performance at design and during implementation of newly designed and ongoing projects.

Methodological limitations of the ARRI analysis

Changes in rigour, candour, and evaluation criteria and definitions

1. Management believes that it is important to explore the extent to which perceived declines are indicators of true worsening performance or if such could be due to changes to definitions of indicators or more rigorous quality assurance reviews put in place since 2015. At that time, IFAD issued revised guidelines on project completion reporting. These led to a more strenuous quality review process, more emphasis on the quality of project completion reports (PCRs), more rigour in assessment and a push for greater backstopping in PCR preparation. As a result, the quality of PCRs has improved, with 89 per cent rated 4+ on overall quality in the ARRI 2016-2018 cohort. The increased candidness and rigour in assessment are likely to have led to more realistic ratings and therefore could be driving declines in performance in some of the areas highlighted in the report.
2. Changes in evaluation methodology and criteria over the years could also have contributed to less positive ratings. The definitions of some indicators have been modified, such as the project performance indicator, to which sustainability was added in 2016; and in scaling up and innovation, which were split into individual indicators in 2017. IOE has applied the new definition of the latter retroactivity while Management has not. The issue is therefore one of retrofitting and comparability over time where older projects are judged against newer criteria that were not in place at the time of design.
3. **Sample size.** Given the small sample size and decreasing number of projects completing in a given three-year rolling period, fluctuations and dips in three-year rolling average ratings are due to a small number of projects. This generates problems not only for analysis of trends, but also for more sophisticated statistical or econometric analysis. The 2016-2018 cohort has 64 projects, 2015-2017 has 81, 2014-2016 has 104 and 2013-2015 has 110; therefore averages are sensitive to increasingly small fluctuations. This is also a concern for the project completion report ratings used by Management in the RIDE. For this reason, Management has begun to highlight the number of projects that the analysis is based on, and to show data from standalone years in addition to rolling averages. The CSPE sample is even smaller with on average of 5 CSPEs conducted in a given year. Therefore, drawing trends in non-lending activities on the basis of such a small sample would be reductive; in its own reporting, Management complements reporting at COSOP completion with a revamped stakeholder survey.
4. **Age of the portfolio.** Given that the ARRI is a synthesis report looking at the past performance of projects evaluated, and with the limited number of new projects included in the analysis year to year, it is inevitable that the ARRI conclusions and findings will be repetitive in the short run. Despite strong efforts to increase proactivity in portfolio management and a strong focus on quality over the past two years, Management expects to continue to see similar trends in the ARRIs throughout the IFAD11 period (and potentially into IFAD12) given the 2-3 year lag between project completion and their evaluation and inclusion in the ARRI. For example, the 2022 ARRI will largely contain projects completed in IFAD10 and a few from 2019. Projects designed in IFAD10 will only start appearing in the ARRIs from 2024 onwards, at the earliest.

