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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Evaluation Committee – Thirty-Ninth Session**  
Rome, 8 April 2005

**IFAD'S OFFICE OF EVALUATION**  
**COMMENTS ON THE**  
**PORTFOLIO PERFORMANCE REPORT**

**I. INTRODUCTION**

1. The Eighty-Third Session of the Executive Board adopted the new Terms of Reference and Rules of Procedure of the Evaluation Committee of the Executive Board, which expanded the mandate of the Evaluation Committee to include, among other things, a review of the Portfolio Performance Report (PPR) (previously called Progress Report on the Project Portfolio) submitted annually by IFAD management to the Board and the comments of the Office of Evaluation (OE) thereon. The present document contains OE's comments on the PPR for 2005.
2. The PPR has been changed compared with previous years in that it now contains considerable information on the intended impact of the portfolio and highlights a number of critical issues that need to be addressed. The report provides an update on institution-wide processes that have been put into place to improve portfolio management and performance. At the same time, the PPR is – by its own admission – a work-in-progress and will be further refined alongside improvements in the Results and Impact Management System (RIMS). OE's comments aim at contributing to this process of continuous improvement and at enhancing the usefulness of the report as a management tool that supports decisions taken by senior management and the Board.
3. OE's comments focus on three areas of the PPR:
  - (i) the structure and methodology of the PPR to verify whether information is accurate, presented clearly and in an easily understandable manner;

- (ii) the adequacy of recommendations contained in the PPR, i.e. whether appropriate measures in response to the issues raised in the report have been identified and implementable actions are suggested; and
- (iii) the extent to which the report constitutes an adequate management response to the findings in the Annual Report on the Results and Impact of IFAD Operations (ARRI).

## II. STRUCTURE AND METHODOLOGY

4. The PPR has made an important step in the right direction inasmuch as it covers the same impact domains as the ARRI and, reportedly, aims to progress further in this direction. This move will lead both to a harmonization of the Programme Management Department (PMD) monitoring and evaluation systems and of OE's independent evaluation, and render the reported findings on the six impact domains comparable. This promotion of internal harmonization at IFAD is in line with similar efforts currently being undertaken by other international finance institutions (IFIs) in this field of work.

5. To build on this positive direction, OE recommends that the PPR for 2006 should provide additional information on its overall objective, data sources and the instruments and indicators used in the process, and that it substantiate its findings and recommendations. This may be achieved by providing:

- (i) a clearer statement of the report's objective, which should be twofold: (a) to provide senior management and the Board with data that will enable them to take informed decisions to improve portfolio performance; and (b) to give a management response to the findings of the ARRI;
- (ii) a diagram illustrating the sources used to generate the PPR, such as project status reports (PSRs), project-at-risk reports (PARs), project completion reports (PCRs), country programme information sheets, etc.;
- (iii) definitions of indicators used to assess the quality of the portfolio at entry, portfolio at risk and impact indicators, including rating scales;
- (iv) an explanation of any differences between OE's indicators and rating system and those of PMD; and
- (v) indicators used by comparators (for example, other IFIs) that produce annual reports on portfolio performance, and a comparison of such indicators with those used in the PPR.

6. The PPR contains a wealth of information and provides extensive details on the portfolio, both in traditional terms (such as approval and disbursement figures, closures and cancellations) and on impact. While the strong point of such detailed reporting is that it brings out key issues calling for the attention of both senior management and the Board, the amount of detail is overwhelming. In the future, the report should provide more synopsis and aggregation of performance data together with a comparison with benchmark information from independent evaluations and comparators if it is to become useful to decision-makers. OE recommends that, in future, the PPR should:

- (i) provide more aggregate data on portfolio performance (some of which is contained in the annexes to this year's report) and impact indicators. This should be presented in the form of tables and charts to illustrate trend data (over the past five years), including explanations of observed trends;
- (ii) make greater use of PCRs, after ensuring that they meet the desired standards, to compile information on impact indicators as reported at the time of project completion;

- (iii) provide a table illustrating the comparison between the performance reported in IFAD's self-evaluation system (current projects reported in PSRs and completed projects reported in PCRs) with that of OE's independent evaluations, in particular the ARRI, and develop an indicator and a metric to capture the 'net disconnect' between the ratings of the self-evaluation system and that of OE;
- (iv) benchmark IFAD's portfolio performance against that of comparator IFIs, using the data provided as suggested in paragraph 5(v);
- (v) highlight and explain the performance of outliers, whether good-practice examples or areas that require improvement and decisions on remedial actions; and
- (vi) reduce the number of examples that provide anecdotal evidence to a few that illustrate a point made in the presentation of aggregate data/synopsis.

### III. RECOMMENDATIONS

7. Throughout the report the PPR provides a candid assessment of weaknesses and numerous suggestions for improvements to be made, which signal IFAD's readiness to engage in improving its operations. While some of the recommendations have been reflected in the concluding chapter, a number of them have not been captured in that section or presented in such a way that decisions and actions can be based upon them. Therefore, OE recommends that, in future, the PPR should:

- (i) clearly separate the summary of conclusions from the recommendations;
- (ii) draw together the recommendations made throughout the report, with relevant references to sections/paragraphs in the main text;
- (iii) prioritize the recommendations, for instance, with the use of an "urgent/important" matrix; and
- (iv) determine issues to be managed/resolved at different levels of IFAD management and others calling for the Executive Board consideration.

### IV. MANAGEMENT RESPONSE TO THE 2004 ARRI

8. During the Eighty-Second Session of the Executive Board in September 2004, it was agreed that in the annual Progress Report on the Project Portfolio, IFAD management would provide a response to the issues raised in the ARRI. The PPR responds to this requirement to a certain extent inasmuch as it addresses a number of issues raised in the ARRI both in the introductory chapter and as an integral part of the main report. However, for purposes of accountability it would be useful to include a distinct section on management's response to the ARRI in the form of a table summarizing management's response to each issue and recommendation contained in the ARRI.

9. The ARRI for 2004 (covering evaluations undertaken in 2003) raised the following issues on which management's response was sought:

- (i) The ARRI recommended monitoring IFAD's attempts to address recurrent problems with microfinance, monitoring and evaluation. While acknowledging that policies and guidelines had been introduced, the report stressed that it was necessary to ascertain whether such policies and guidelines were adhered to. The PPR provides details on the impact of IFAD assistance on financial assets, but not on compliance with the microfinance policy. However, the latter will be subject to a corporate-level evaluation starting in 2005, on the understanding that the policy will be revised to reflect evaluation findings.

- (ii) The ARRI furthermore recommended that clearer and stricter tests be introduced to assess the likely sustainability and innovation/replication of projects during their appraisal through a quality-assurance mechanism at entry, and that greater attention be paid to such issues during implementation and supervision. The PPR reports that a new system will be introduced for knowledge management and that IFAD will adopt a new operating model; both innovations are expected to address concerns raised in the ARRI. However, at this stage, the required ex ante quality-assurance measures are not yet available for assessment.
- (iii) The first strategic issue raised by the ARRI was the need for a clearer definition of IFAD's target group in order to determine whether the Fund was to assist the poorest of the poor or the economically active poor, or both. The PPR provided considerable information on targeting to illustrate the various targeting mechanisms currently used by the Fund, as well as on areas where targeting was not possible. However, the PPR does not specifically respond to this particular question in the ARRI. That calls for a policy discussion aimed at sharpening IFAD's definition and understanding of its target group(s).
- (iv) The second strategic issue raised in the ARRI was the need to take a wider perspective on projects, integrating them into a broader institutional and economic context, and giving higher priority to policy dialogue, institutional linkages, innovation, and scaling up. The PPR reported on IFAD's involvement in harmonization processes within both the United Nations system and the multilateral development banks, and policies adopted in line with those efforts. However, it would be useful for the PPR to illustrate the link between project work and broader economic and institutional work.
- (v) The last strategic issue raised in the ARRI was that IFAD needed to move beyond projects and become a strategic partner at the country level. The PPR reported on progress with the pilot programme on field presence, which should strengthen IFAD's opportunities as a strategic partner, as well as on the new operating model that is expected to develop, among other things, a new country programme framework.

