

Distribution: Restricted

EC 2006/43/W.P.2/Rev.1

10 April 2006

Original: English

Agenda Item 3

English

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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Evaluation Committee – Forty-third Session

Rome, 7 April 2006

PORTFOLIO PERFORMANCE REPORT 2005

VOLUME I

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ABBREVIATIONS AND ACRONYMS

ARRI	Annual Report on Results and Impact of IFAD Operations
COSOP	country strategic opportunities paper
CPM	country programme manager
FLM	Flexible Lending Mechanism
OE	Office of Evaluation (IFAD)
PMD	Programme Management Department (IFAD)
PPR	Portfolio Performance Report
PSR	project status report
RIMS	Results and Impact Management System

EXECUTIVE SUMMARY

1. This Portfolio Performance Report provides the Executive Board with an overview of the performance of the portfolio in delivering results to the Fund's target groups. It also supplies the response of IFAD management to the findings of the 2005 Annual Report on Results and Impact of IFAD Operations (ARRI) and presents the current status of the portfolio.

Portfolio Management

2. In 2005, IFAD achieved record levels of approvals and disbursements. It also closed a larger number of projects¹ than it had in previous years, improved on loan cancellations, increased cofinancing and stabilized the number of projects in the portfolio. In numerical terms, it:

- (i) approved 31 projects, with a total financing amount of USD 485 million;
- (ii) approved 66 grants, with IFAD financing of USD 37 million;
- (iii) mobilized cofinancing of USD 569 million;
- (iv) declared 23 projects effective;
- (v) completed 32 projects; and
- (vi) disbursed USD 343 million under loans and USD 23 million under grants.

3. Since its establishment, IFAD has approved 707 investment projects, with USD 9 billion approved from its own resources and USD 15.8 billion contributed by cofinanciers. The current portfolio now stands at 232 investment projects, with approved IFAD financing of USD 3.6 billion, and 274 grants, with IFAD financing of USD 119 million. Of these, 184 investment projects and 178 grants are now being implemented.

4. The recent trend of 'portfolio rejuvenation' persisted in 2005, and, as a result, the portfolio contains a younger set of projects. At the same time, delays in effectiveness have increased, reversing the gains made in 2004, and this is an area that requires attention. Meanwhile, the average loan size has decreased, raising the prospect that the portfolio faces diseconomies of scale.

Portfolio Impact

5. The results of the self-assessment generally concur with the ARRI report findings of a satisfactory performance in terms of relevance and effectiveness. However, there is some disconnect between the results of the self-assessment by the Programme Management Department and the ARRI findings with respect to efficiency. This should therefore be analysed. As measured against the Fund's three strategic objectives, the performance is satisfactory in terms of increasing access to financial services and markets and strengthening the capacity of rural poor people and their organizations. Its impact is lower in improving equitable access to productive natural resources and technology, although it is satisfactory in more than half of the projects.

6. The portfolio review looked closely at the ARRI finding that a significant number of projects do not benefit the poorest and identified some disparity between this and the results of the self-assessment. However, the results of the self-assessment show the scope for sharpening IFAD's approach to targeting during both project design and implementation. In this light, IFAD management will submit a targeting policy to the Executive Board in September 2006. In addition, the new operating model will introduce other elements to sharpen the Fund's focus on rural poverty.

7. In terms of impact domains, high or substantial impact on physical assets was reported in both the ARRI report and the self-assessment. Extending financial services to the rural poor is an ongoing challenge, and recent rural finance programmes have supported a variety of rural finance

¹ As used herein, "projects" refers to IFAD projects and programmes.

institutions devoted to reaching the rural poor. As a result, the share of microfinance services, which focus more on poverty than do conventional credit programmes, is on the increase.

8. Overall, the impact on food security is positive, according to the ARRI report and the self-assessment, largely as a result of improvements in agricultural technologies and practices. Similarly, although there is room for improvement in terms of the impact on human assets, the impact in this area is also rated high or substantial in the projects evaluated during the last three years. Since its establishment, IFAD has relied heavily on increasing and making full use of social capital to empower rural poor people. It has gained valuable experience, particularly in creating and strengthening poor people's organizations and reinforcing the role of communities in decision-making processes. This is the principal strategy that IFAD has pursued in building local ownership. The findings of the evaluations undertaken in 2004 in this regard reverse the findings of the evaluations undertaken in 2002 and 2003 and therefore call for further analysis.

9. While IFAD realizes that influencing policy making is crucial in establishing the institutional frameworks or rules of the game that favour or at least do not work against the poor, its activity in this area has been constrained by a number of factors. The shortcoming in terms of impact on institutions and policies are being corrected by using grants and country-specific analytical work and related capacity-building. The self-assessments of the Programme Management Department also show shortcomings in addressing environmental risks, perhaps as a result of a lower proportion of investments in this area.

10. The self-assessment system rated the performance in institution building as satisfactory. Sustainability of project impacts, however, depends on many other elements, some of which are being addressed through the ongoing portfolio. In the longer term, IFAD's understanding of the causes of sustainability among grass-roots institutions needs to be deepened, together with its understanding of the relationship between institutional sustainability and the empowerment process. IFAD is putting more emphasis on building federations of grass-roots institutions and on involving farmer organizations in national and international policy. A number of measures are also being undertaken to enhance the local ownership of projects.

11. Women's participation in decision-making bodies, while showing improvement over time, requires constant attention. The mid-term review of the Gender Plan of Action shows some progress and recommends scaling up efforts during the remainder of the plan period. Follow-up actions have been identified, and these will be implemented. The challenges in knowledge management and innovation will be addressed through the development and implementation of a knowledge management strategy under the action plan.

Improvements in Processes and Instruments

12. Major achievements in 2005 include:

- (i) development of a comprehensive manual for impact surveys under the Results and Impact Management System: actual results in 2005 were reported for 86 projects, a 30% increase over 2004;
- (ii) completion of the evaluation of the Direct Supervision Pilot Programme by the Office of Evaluation, the decision to continue with the 12 ongoing directly supervised projects, and the amendment of the Agreement Establishing IFAD and the Lending Policies and Criteria to allow greater flexibility in the choice of supervision partners;
- (iii) implementation of 14 of 15 field presence pilot initiatives; and
- (iv) undertaking of inter-phase reviews for 5 of 18 ongoing programmes under the Flexible Lending Mechanism.

PORTFOLIO PERFORMANCE REPORT 2005

I. INTRODUCTION

1. This Portfolio Performance Report (PPR) has two purposes:
 - (i) to provide the Executive Board with an overview of the performance of the portfolio in delivering results to IFAD's target groups; and
 - (ii) to give a management response to the findings of the 2005 Annual Report on Results and Impact of IFAD Operations (ARRI).

In fulfilling these purposes, this report analyses the status and trends of IFAD's portfolio of loans and grants, identifies key strengths and weaknesses associated with the management of the portfolio and provides a strategic review of the effectiveness of the portfolio in achieving impact relative to a range of development indicators. The Portfolio Performance Report also has learning and knowledge-sharing objectives and identifies emerging issues, challenges and opportunities, together with the actions taken in response.

2. This report is based on regional portfolio reviews. These regional reviews followed revised guidelines that establish a more rigorous and standardized review process for the loan portfolio and introduce a review process for the grants portfolio, along with a new instrument, the grants status report. The information sources for the Portfolio Performance Report extend beyond the evaluation reports and include the project status reports (PSRs), supervision reports, mid-term and completion reviews, and the Results and Impact Management System (RIMS). For the financial analyses, the principal source is the Project Portfolio Management System, along with the Loans and Grants System.

3. This report also presents the progress made in terms of improving organizational processes and instruments such as the RIMS, the Direct Supervision Pilot Programme, the Field Presence Pilot Programme, the Performance-Based Allocation System, private-sector development, post-crisis assistance, and alignment and harmonization.

4. While learning will continue through ongoing portfolio operations and incremental improvements in organizational processes and instruments, the principal vehicle for change in 2007-2009 will be the action plan.² This plan aims to improve the relevance, efficiency, effectiveness and sustainability of IFAD's rural poverty programmes and has identified three areas of action: strategic planning and guidance to establish the priorities for the organization's operation, strengthened country programmes rooted in a new operating model, and knowledge management and innovation.

5. This report has been restructured in line with IFAD management's commitment to harmonize the self-assessment system with the independent evaluations carried out by the Office of Evaluation (OE). The current status and trends of the portfolio are presented in Section III; this is followed by a review of project performance and targeting in Section IV, a review of performance in Section V according to the six impact domains identified in IFAD's methodological framework for project evaluation, and an overview of improvements in processes and instruments in Section VI. An overview of the response of IFAD management to the 2005 ARRI report is provided in Section II below.

² IFAD's Action Plan for Improving its Development Effectiveness, Executive Board document EB 2005/86/R.2/Rev.1.

II. RESPONSE TO THE 2005 ARRI REPORT

6. By pooling the projects evaluated between 2002 and 2004, the 2005 ARRI report³ enabled OE to achieve a sample size of 29 projects and, to a certain extent, to overcome the problems associated with small samples. Overall, the evaluations undertaken in 2004 underrepresent projects classified as highly performing by the Programme Management Department (PMD) and, thus, run the risk of underreporting performance. To a large extent, the 2005 ARRI findings match the results generated by PMD's self-assessment system. However, some areas have been identified that require a clearer understanding of the results expected and those measured. These are presented below.

A. Project Performance

7. **Relevance and targeting.** As 87% of the projects evaluated during 2002-2004 were found to be highly or substantially relevant, performance in this area can be considered highly satisfactory. However, the ARRI report also observed that relevance to the needs of specific target groups could be improved. IFAD management recognizes that the appropriate selection of project participants is crucial to making projects relevant to the needs of IFAD's target groups and to making these projects effective.

8. Overall, the ARRI report found that IFAD projects were appropriately targeted geographically, but not always socio-economically. The self-assessment findings, however, do not fully support this finding. A number of factors explain this (Section IV). First, IFAD puts emphasis on including particularly vulnerable groups; second, the multidimensional nature of poverty makes identification of target groups difficult; and third, there are a limited number of instruments for reaching the poorest people. Evaluation reports warn against overly rigorous targeting. The relatively high disconnect of the ARRI report findings with the self-assessment is explicable in this light.

9. IFAD is mandated to serve a specific target group: rural poor people. It is therefore incumbent on IFAD to devise appropriate strategies and mechanisms to reach the intended beneficiaries. With this in mind and in line with the recommendation of the 2005 ARRI report and the scope that exists for improving its targeting, IFAD management is working on a targeting policy and strategy for submission to the Executive Board in September 2006. Similarly, the new operating model will introduce other elements to sharpen the focus on rural poverty with more effective targeting of the poorest rural peoples.⁴

10. **Effectiveness.** Effectiveness is also assessed favourably by the 2005 ARRI report, with about two thirds of the projects rated substantially effective. However, there is concern that some projects are focusing on physical targets or outputs as project objectives. IFAD management is conscious of this weakness in project design, and quality assurance processes are being strengthened to ensure an appropriate statement of objectives and to identify relevant indicators. In addition, guidelines for preparing a logical framework will be issued soon, and intensive staff training programmes will follow.

11. **Efficiency.** Since only slightly more than half of the projects reported in the ARRI report are highly or substantially efficient, this area requires attention. However, additional factors need to be considered. First, the evaluation of efficiency using the economic internal rate of return was based on a very small sample. Second, efficiency indicators should include measures beyond the economic internal rate of return. Third, some areas of intervention that are specific to IFAD projects, such as the development of social capital and empowerment, are difficult to incorporate in the standard economic internal rate of return, thus leading to an underestimate of the economic impact. This underestimate also accrues over a longer time frame and thus tends to generate an underestimate in project

³ The 2005 ARRI report refers to the Annual Report on Results and Impact of IFAD Operations Evaluated in 2004, Executive Board document EB2005/86/R.7. It reports on the evaluations undertaken during 2004.

⁴ IFAD, action plan 2005, paragraph 18.

evaluation. A larger database with broader assessments needs to be created. With this in mind, IFAD has drafted a new guideline for project completion that will make the assessment of the economic internal rate of return and other measures of efficiency compulsory.

B. Impact Domains and Overarching Factors

12. Overall, the 2005 ARRI report found that the impact on food security was significantly positive, largely as a result of improvements in agricultural technologies and practices. The impact on physical assets was also reported as high or substantial. Support for marketing was generally increasing. Similarly, the impact on human assets was rated high or substantial in the projects evaluated over the last three years, although there is room for improvement. Direct investments to improve the impact on human assets, however, will be made only on a strategically selective basis.

13. On the issue of whether extending financial services to the rural poor is a continuing challenge, it is noteworthy that most of the projects evaluated in 2004 pre-dated the approval of IFAD's rural finance policy in 2000. Since then, IFAD has moved forward, and recent rural finance programmes have supported a variety of rural finance institutions devoted to reaching rural poor people more sustainably. As a result, the share of microfinance services, which are more poverty-focused than conventional credit programmes, is rising. A number of measures are also being taken to enhance rural poor people's access to financial services (see paragraphs 58 and 59).

14. In contrast to the findings of the evaluations undertaken during 2002 and 2003, evaluations undertaken in 2004 reported only a modest impact in the building of social capital. The overall picture over three years has therefore become mixed. As this is not fully supported by the self-assessments, further analysis is necessary. Initiatives have been started in the light of the finding that there is a lack of adequate attention to environmental risk, particularly in soil and water conservation (paragraphs 84-85). Work related to the updating of IFAD's environmental assessments has begun, and reviews are being undertaken in this area. IFAD realizes the importance of influencing policies in setting the rules of the game to favour or at least not work against rural poor people. Historically, the Fund has been constrained by a number of factors (paragraph 87). The new operating model will promote a consistent involvement of IFAD in country-level policy dialogue.

15. Sustainability has been identified by previous ARRI reports as an area of concern. While IFAD's emphasis on building grass-roots institutions will be helpful in achieving sustainability in the long run, it needs to do more to develop mechanisms to ensure local ownership. Its current work on developing systems and procedures under the community-driven development approach will be refined to ensure more effective local ownership. In the future, a more proactive policy for follow-up financing will be adopted, keeping in view the sustainability of the results. In addition, future projects will more effectively address exit strategy during design and implementation.

16. As regards gender, self-assessments also show a mixed overall picture despite notable successes within some projects. Women's participation in decision-making bodies, while showing improvement, requires continued attention. The mid-term review of the Gender Plan of Action shows some progress and recommends scaling up efforts. Follow-up actions have been identified, and these will be implemented.

17. IFAD also realizes it faces a challenge in knowledge management and innovation and will respond appropriately through the development and implementation of a knowledge management strategy under the action plan. Under the Initiative for Mainstreaming Innovation (IMI), IFAD is also promoting and experimenting with innovative approaches. Under the initiative, ten innovative initiatives were financed in 2005 and are being implemented.

C. Management Responses to the Conclusions and Recommendations of the 2005 ARRI Report

18. IFAD management has taken note of the conclusion of the 2005 ARRI report that IFAD projects in middle-income countries perform relatively poorly with respect to their impact on rural poverty. While aware of the close link between policy and institutional environments and the success or failure of projects, IFAD management considers the sample size too small and the results of the individual evaluations too divergent for this finding to be considered conclusive. It therefore plans to undertake further analysis and to identify more appropriate instruments to address the issue of the impact on rural poverty in middle-income countries.

19. The conclusion of the ARRI report with respect to the absence of an in-country presence and the consequent weaknesses in support for design and implementation fits well with IFAD management's own assessments and responses. The Direct Supervision Pilot Programme and the Field Presence Pilot Programme were designed and are being implemented against this background. Following the evaluation recommendation, the Agreement Establishing IFAD and the Lending Policies and Criteria have been amended to broaden the choice of cooperating institutions and to allow IFAD occasionally to engage in direct supervision. IFAD is committed to identifying cost-effective means to enhancing country-level capacity and constructive engagement in country dialogue and donor collaboration.

20. As clearly identified in the action plan, IFAD management is committed to working more systematically within partnerships and national and international processes and to enhancing the local ownership of its programmes. In this light, the new operating model will engage more effectively with organizations of the rural poor, farmers, civil society and other partners. This systematic engagement in partnerships will be undertaken within the larger framework of harmonization and effective participation in country-led poverty reduction strategies. IFAD is also committed to establishing in-country modalities that are tailored to country-specific requirements. This should allow for the adoption of a diversified approach, enabling IFAD to respond strategically to the needs of individual countries in line with the ARRI report recommendation.

21. IFAD management realizes the importance of knowledge management and innovation in enhancing development effectiveness, and this has therefore been identified as one of the focal areas of the action plan. In addition, the main phase of the innovation mainstreaming activities under the Initiative for Mainstreaming Innovation (IMI), which began in February 2005, will continue. These activities include the development of new financing instruments for innovative projects, training and field exposure programmes for staff, and seminars. Efforts have also been made to improve the communication tools in the innovation effort. Under the action plan, IFAD will be working to strengthen quality enhancement processes by fine-tuning the criteria and reinforcing the systems for ensuring quality at entry and implementation. A partnership-based quality assurance system will be introduced, capitalizing on the strengthened in-house technical and thematic capacity and mobilizing external organizations.

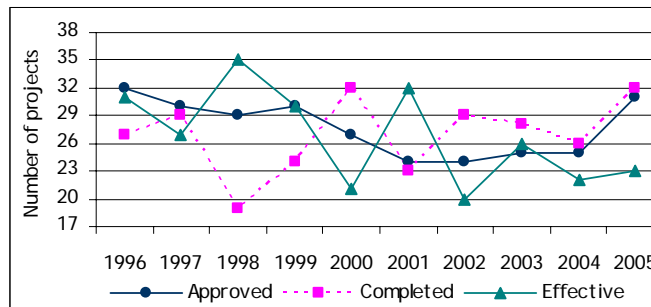
22. IFAD management agrees with the ARRI finding that operational staff are overstretched in terms of both numbers and skills. The proposed change agenda will undoubtedly put additional demands on staff capacity. Human resource reform is thus an inherent part of the change process under the action plan. This will involve the development of results-oriented staff assessment procedures, staff capacity development in line with changed competency profiles, workload and structure reviews and realignments, and the development of accountability and incentive frameworks and career progression guidelines.

III. PORTFOLIO CHARACTERISTICS AND PROCESS EFFICIENCY

A. Investment Portfolio

23. From a financial perspective, the year 2005 saw significant dynamism (see Annex I for further details on the portfolio). Altogether, 31 projects were approved (Chart 1), including four to respond to the tsunami that hit Asia in December 2004. IFAD financing for the 31 projects amounted to USD 485 million, a record figure. This reversed the stagnant trend of 24 to 25 projects approved each year over the last four years. With these 31, the number of projects approved by IFAD in the last five years reached 129, with financing of about USD 2 billion. As at 31 December 2005, IFAD had approved since its establishment 707 projects in 115 countries and territories⁵ with an approved financing amount of USD 9 billion.

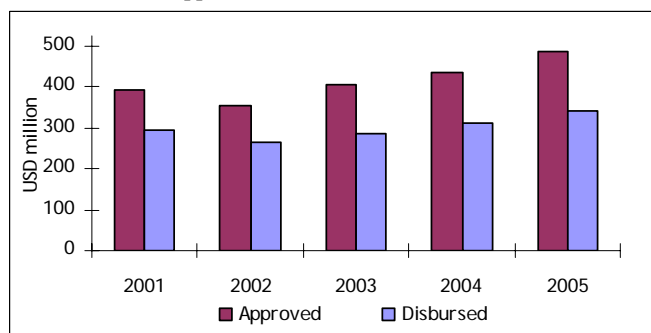
Chart 1: Projects Approved, Effective and Completed (1996-2005)



24. There was some decline in the proportion of projects approved for sub-Saharan Africa. Taken separately, however, approvals for Western and Central Africa increased significantly in 2005. The recent global trend of an increasing share of highly concessional lending persisted in 2005.

25. IFAD disbursed USD 343 million in 2005, a 9% increase over 2004 and also a record figure. Total disbursement in the last five years has exceeded USD 1.5 billion. Disbursements in 2005 in special drawing rights also reached a new high of SDR 245 million, or an 11% increase over 2004. Of the funds disbursed in 2005, about USD 148 million (41%) went to countries in sub-Saharan Africa, a slight increase over 2004 in terms of value. Disbursements for loans in the Asia and the Pacific region improved by more than 28% over 2004, reaching the highest level ever.

Chart 2: Approved and Disbursed Amounts (2001-2005)



26. At the end of 2005, relative disbursements against the amount disburseable stood at 15%, somewhat higher than the 2004 figure. Disbursements for highly concessional loans also reached 15% of the disburseable amount. Similarly, 23 projects, with IFAD financing of USD 376 million, became effective. As a result of the sharp rise in approvals, projects awaiting effectiveness grew from 40 to

⁵ One is a territory.

48. Of these 48, financing agreements for 24 have been signed. For projects that became effective in 2005, the delay between approval and loan effectiveness was longer – an average of 17 months – which is above the long-term, five-year historic average of 15.6 months.⁶

27. During 2005, project completion and loan closing dates were extended in the case of 35 projects. Of these, nine projects were extended because of the policy on redefined implementation periods. These extensions are of a purely technical nature and thus do not represent a portfolio management action per se. Thirty-two projects were completed, again reversing the recent trend of approximately 28 projects closing per year. However, time overruns increased.

28. The net effect of the higher numbers of completions and extensions tended to be virtually neutral, with the current portfolio unchanged at 232 projects. The amount approved for these increased somewhat and stood at USD 3.6 billion on 31 December 2005. The 232 projects are located in 88 countries, an average of 2.6 projects per country. Within this average, there is a high level of dispersion: around 57% of countries have only one or two projects, while about 26% have four or more projects.

29. Activity-wise, IFAD's financing shows a fair level of dispersion. Of the USD 5.4 billion approved since 1992, rural financial services and credit represent the largest part (21%), followed by project management and coordination (11%), technology transfer (8%), local capacity-building (6%), irrigation infrastructure (6%), rural infrastructure (5%), community development (5%) and roads and tracks (3%). A gradual shift in the approved amount in favour of microenterprises, resource management and protection, health and training has been observed more recently.⁷

30. At the end of 2005, of the projects that were to be supervised, 12 (or 7%) were directly supervised by IFAD,⁸ and the remaining 171 were being supervised by various cooperating institutions. Among these, the United Nations Office for Project Services has the largest share, with 125 projects (68% of the total). The World Bank is a distant second with 15 projects (8%). Of the remaining, the Andean Development Corporation and the West African Development Bank have the largest number, with 10 and 8 projects, respectively. During 2005, dependence on the United Nations Office for Project Services increased by about 7 percentage points.

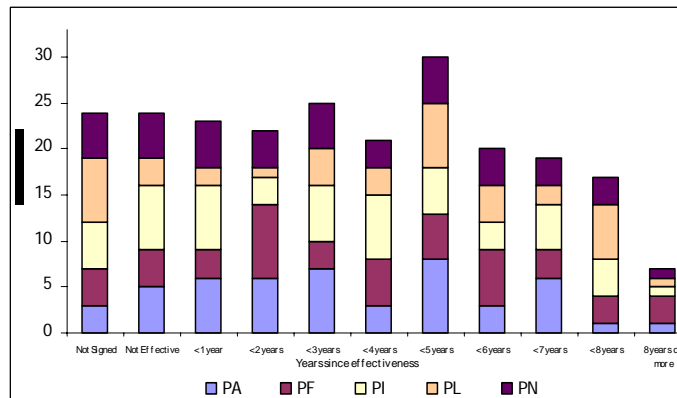
31. With 39 and 28 projects scheduled to be completed in 2006 and 2007, respectively, about one third of the ongoing portfolio of projects is expected to close in the next two years, implying a potential rejuvenation of the portfolio in coming years (Chart 3). This will certainly offer an opportunity for incorporating lessons learned into new designs, but it will also require allocation of more resources for implementation, as younger projects need more implementation support.

⁶ Delays tend to be associated with a few projects and therefore are not a general trend. Nevertheless, corrective actions are required. In addition, projects exclusively financed by IFAD were declared effective on average three months sooner than those financed by external partners, implying that factors exogenous to IFAD may cause some delays.

⁷ A wide fluctuation across activities continues to characterize annual approvals, and, thus, the trend can be determined only over a longer period, with three- or four-year averages.

⁸ Figures do not include a grant-financed project in Gaza and the West Bank that is directly administered by IFAD.

Chart 3: Age of the Portfolio by Region

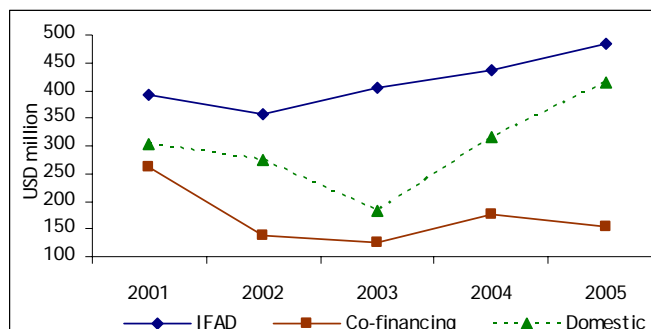


PA = Western and Central Africa Division
 PF = Eastern and Southern Africa Division
 PI = Asia and the Pacific Division
 PL = Latin America and the Caribbean Division
 PN = Near East and North Africa Division

32. In 2005, the amount of loan cancellations declined marginally from SDR 41 million in 2004 to SDR 40 million in 2005. Less of the original loan amounts are now being cancelled at loan closing. This has led to an earlier freeing up of resources. This is an area that has seen significant improvements, and this momentum needs to be maintained.

33. IFAD mobilized cofinancing of about USD 569 million in 2005, implying that USD 2.20 was leveraged against each U.S. dollar committed (Chart 4). Of the total amount approved for financing in 2005, more than USD 415 million were mobilized through domestic partners. The significant increase in domestic cofinancing allowed IFAD to recover from a declining trend in cofinancing. Since 2003, financing from domestic resources has risen significantly. Contributions from domestic financing institutions made up the largest share of financing in 2005. The growing diversity of domestic financing partners points to an increasingly broader set of domestic stakeholders.

Chart 4: Financing Trends (2001-2005)



34. With additional funding in 2005, the total amount of resources mobilized by IFAD reached almost USD 25 billion. Direct IFAD financing accounts for around USD 9 billion, or about 36% of total resources mobilized. This implies a long-term leveraging factor of 2.75. This not only underscores the relevance of IFAD assistance, but also the importance of partnerships in meeting the challenge of rural poverty reduction.

35. The average loan size of projects approved in 2005 was USD 15.4 million, an 11% decline over the total in 2004. IFAD's average loan size is much lower than that of other international financial

institutions.⁹ As most costs associated with designing and implementing projects tend to be fixed, lower average loan size implies higher administrative costs per U.S. dollar lent. If they persist, the diseconomies of scale that were experienced in 2005 will cause a fairly rapid growth in the number of projects in the portfolio.

B. Grant Portfolio

36. In 2005, a total of USD 36.6 million was approved for 66 grants. This represents a 10% increase in value, but a 25% reduction in the number of grants, implying a significant increase in the average grant size and representing a trend different from that of the loan portfolio.

37. IFAD's close partnership with institutions of the Consultative Group on International Agricultural Research continued in 2005 with the approval of seven grants to five such institutions under the global/regional grants window and amounting to USD 5.1 million. Under the same window, an additional USD 19.1 million was approved to support 14 other institutions, including five NGOs or non-profit making organizations and five research and training organizations. Some 20 small grants were approved under the global/regional grants window, valued at about USD 2.8 million. Similarly, country-specific grant financing totalling USD 7.2 million was approved by the Executive Board in conjunction with the loan approvals for 12 development projects (USD 6.2 million) and two others totalling USD 985 000. Likewise, 13 small country-specific grants were approved, for a total of USD 1.8 million in areas such as monitoring and evaluation, capacity-building and policy dialogue, and some were targeted at specific sectors such as agriculture or rural financial services.

38. As noted in last year's PPR, the level of cofinancing is high for IFAD grants. The grants programme maintained this distinguishing feature in 2005. In addition, after significant drops in the previous two years, disbursements under the grants programme rebounded and reached USD 22.6 million in 2005. The difference between the current and effective portfolio, however, suggests significant delays in making grants effective. This is an area that will require attention in 2006.

39. The following table summarizes the grants approved **before** and **after** the new grant policy came into effect.

Table 1: Ongoing Grants Portfolio at 31 December 2005

	Current Portfolio ^a		Effective Portfolio			
	Number	Amount (USD '000)	Number	Approved (USD '000)	Cumulative Disbursement	
Amount (USD '000)					Per cent	
Under previous grant policy						
CGIAR	23	20 095	23	20 095	7 976	40
Research non-CGIAR	62	34 143	58	30 238	17 755	59
Component	3	1 610	3	1 610	610	38
NGO	40	3 062	33	2 528	1 904	75
Special Operations Facility	9	655	9	655	471	72
Subtotal	137	59 564	126	55 126	28 714	52
Under new grant policy						
Global/regional window	61	15 530	16	4 156	872	21
Country window	76	44 020	36	22 093	4 035	18
Subtotal	137	59 549	52	26 249	4 907	19
Total	274	119 114	178	81 375	33 621	41

CGIAR = Consultative Group on International Agricultural Research.

^a Current portfolio includes grants approved, not closed.

⁹ For example, the Inter-American Development Bank's average loan size (at 31 December 2003) stood at almost USD 70 million.

C. Overall Implementation Performance

40. The project status report (PSR) acts as an internal monitoring tool for measuring qualitative contextual information regarding project performance. It synthesizes and ranks the performance against a range of indicators such as implementation progress, impact and women's empowerment. Over time, the range of indicators has increased, along with improvement in the descriptors of the ratings. The aggregate PSR ratings for the period 2002 to 2005 have been calculated and are presented in Annex II. In interpreting these assessments, it is worth noting that the rating process has been made more rigorous. The ratings in 2005 are therefore more self-critical.

41. Overall, PSR ratings in 2005 show better performance in terms of compliance with procurement procedures, the availability of funds, compliance with loan covenants and timeliness of reporting. However, the availability of counterpart funds is becoming an area of concern, as demonstrated by a consistent deterioration in the rating over four years. The ratings for 'overall' project implementation has hovered around a score of 2 throughout the period under review.¹⁰ Among its constituent indicators, the performance on monitoring and evaluation is notably low. Other indicators needing improvement include the achievement of physical targets and disbursement rates.

IV. PROJECT PERFORMANCE AND TARGETING

42. Of the 29 projects evaluated between 2002 and 2004 under the 2005 ARRI report, 87% were found to be highly or substantially relevant. The relevance of IFAD-assisted projects can therefore be considered highly satisfactory. Similarly, two thirds of the projects demonstrate substantial effectiveness, a level of achievement that is considered satisfactory for rural development projects, although it leaves room for improvement. Efficiency, on the other hand, has been assessed as high or substantial in only slightly over half the projects, implying a need for attention.

43. Insufficient targeting often characterized by imprecise or absent criteria and a lack of mechanisms for reaching the poorer groups has been identified by the 2005 ARRI report as one such area of concern. Historically, IFAD relied primarily on geographical or area-based targeting, often choosing to serve communities in rainfed areas, rangelands, mountainous zones, or remote or disadvantaged areas. Within the targeted areas, socio-economic targeting was focused on the landless or small farmers, women and indigenous people. This approach allowed IFAD to strike a balance between effectiveness in reaching poorer people and the cost and efforts associated with administering socio-economic targeting.

44. IFAD has gradually moved away from an exclusionary targeting approach for a number of reasons. First, a large segment of the rural population is vulnerable even though income in a given year may put households above the poverty line. Second, to serve the poor, it is necessary to assist the relatively better off in terms of service provisioning, and this also allows for better market linkages that benefit the poor. Targeting has encountered 'left-out errors' as a result of the limitations of the instruments being applied.¹¹ Often, land-based interventions such as irrigation in land-scarce areas do not reach the poorer segments of the population. Rural finance services share the same limitation to a certain extent.

45. There is also no standard approach to classifying populations into specific segments. The multidimensional nature of poverty rules out classifying poverty only according to one dimension, such as income; therefore, a composite or multi-criteria measurement results in more precise targeting. In addition, with the growing importance of sectoral or subsectoral programmes, for

¹⁰ The rating of 1 implies performance above or on target; 2, mostly on target; 3, substantially below target; and 4, little or no progress.

¹¹ Many instruments assume certain capabilities among the poor, i.e. productive capability or capacity.

example, in the Eastern and Southern Africa portfolio, geographical targeting may become less relevant. This means that IFAD is required to apply primarily socio-economic targeting.

46. IFAD is aware that its targeting is sometimes broader than necessary, and countermeasures have been applied. IFAD has adopted more participatory targeting approaches that have permitted responses to specific local contexts and cultural factors. There are also examples, such as in India, of using a poverty audit to apply differential interest rates by type of clientele. Overall, the application of rural poverty mapping is increasing, thereby keeping in view the inherent heterogeneity of the rural poor. Where IFAD has realized that better targeting can be achieved by shifting the locus of its operations, it has revised its country strategy, for example, in Egypt, where future operations will focus on Southern Upper Egypt.

47. In Burundi during the transition from civil conflict, targeting addresses two separate, but related beneficiary groups – the vulnerable and the poor – each through distinct sets of especially designed measures. Measures targeted at the vulnerable focus on the short-term requirement to reintegrate people within productive activities and their related social settings. In contrast, measures aimed at helping the poor more conventionally address the related medium- to long-term development problems. In both Burundi and Rwanda, IFAD has opted not to impose predetermined targeting criteria, but has relied instead on soliciting the perceptions of the rural people themselves.

48. In addition, the search for appropriate instruments that are either self-targeted towards the poorer segments or are relevant to rural poor people and help them directly is continuing. In countries such as China and India, IFAD has been collaborating with the World Food Programme using food as an intervention instrument, as this tends to self-target the poor. Self-targeting has also been used successfully in several IFAD projects in the Andean region of Latin America. Giving poor people access to land is an area in which IFAD has succeeded despite the challenges. Among such interventions, land titling and the demarcation of ancestral lands have contributed to reducing poverty and to empowering the rural poor in Bolivia, Brazil and Panama. Efforts have been made to incorporate land security issues in projects in Madagascar and Uganda. In Senegal, as the interim evaluation showed, there has been significant impact on the equitable access to and the ownership of land.

49. Although targeting is important, it should not be forgotten that rigorous targeting of the poorest people can sometimes be counterproductive. As was noted in the Senegal country programme evaluation, selecting villages and communities on the basis of their poverty levels led to a geographical dispersion of project activities that made it difficult to address problems requiring effort at the community level. Similarly, in Benin, the country programme evaluation warned against applying targeting criteria so strictly that beneficiaries who had been able to improve their incomes and assets were deprived of the follow-through support necessary for sustainable impact.

50. In sum, the targeting approaches adopted by IFAD tend to be highly contextual and determined by a number of other factors. As a result, about 30% of the projects are rated as on or above target in terms of poverty focus during implementation, and 66% are reported to be mostly on target by the self-assessment system (Annex II). This is not to say, however, that IFAD's approach to targeting and implementation needs no improvement. A rating of 2 for two thirds of the projects in the project status reports shows the potential for improvement. The proposed targeting policy and strategy would incorporate the lessons learned and propose mechanisms that are cost effective and easy to administer. Furthermore, technical advisory services focusing on the methodology for carrying out qualitative poverty assessments will be provided during design and implementation.

51. As a significant part of the existing portfolio represents relatively older projects wherein the hierarchy of objectives, outputs and activities are not always precisely defined, assessing the **effectiveness** of such projects becomes difficult. A number of measures have been taken to rectify this situation. First, a logframe guideline has been prepared and circulated. Second, staff training on the

logframe has been initiated. Third, the self-evaluation methodology is being closely aligned with OE's project evaluation methodology.

52. As mentioned in the 2005 ARRI report, the assessment of **efficiency** using the economic internal rate of return was based on a small sample. In addition, given the nature of the projects funded by IFAD, social impact, which is difficult to measure and thus excluded from the economic internal rate of return, tends to be proportionately higher than the economic impact. Furthermore, social impacts accrue over a longer time frame and thus tend to be underestimated at project closure. As these factors tend to lead to underestimates of the efficiency of projects, caution is required in interpreting the results obtained through the ARRI process.

V. PORTFOLIO IMPACT: CHALLENGES AND RESPONSE

A. Physical and Financial Assets

53. Historically, IFAD has invested a very high proportion of its resources in increasing the physical and financial assets of the poor. Adequate achievements in this domain therefore become essential in creating a satisfactory level of overall impact. The last three ARRI reports have all recorded the most pronounced impacts in this area, in particular the impact on physical assets such as irrigated land, household assets, soil conservation measures and livestock. As reported in the country programme evaluation for Egypt, IFAD's investments in land reclamation in the new lands have clearly made a large difference in the quality of life in the targeted communities.

54. Issues regarding the equitable distribution of project benefits have been identified during evaluation, particularly in some irrigation and credit programmes. However, the latter requires explanation. The grass-roots, group-based microfinance operations – such as the self-help groups in India, the financial services associations in Benin and the network of small credit associations (*sandug*) in the Near East – in which IFAD has been engaging have succeeded in reaching the poorer segments of the population and in contributing significantly to the economic and social empowerment of these people. Overall, IFAD's intervention methodology in microfinance has become more holistic and systemic. For example, in Eastern and Southern Africa, four national programmes in support of rural financial services are currently ongoing. Similarly, in Latin America and the Caribbean, IFAD has been successfully supporting the Rural Microfinance Forum Initiative in Latin America, a network of networks working in nine countries of the region.

Box 1: Towards Sustainable Micro and Rural Financial Institutions in Ethiopia

The sustainability of microfinance and community banking operations is being addressed through the Rural Financial Intermediation Programme in Ethiopia. Through its emphasis on financial and operational sustainability, underpinned by the improved capacity of the central bank to regulate and supervise such institutions, the programme seeks to build a sustainable rural financial services network. The programme also promotes linkages between the rural financial network and the formal Ethiopian banking system.

Some 17 microfinance institutions are currently participating in programme activities and have already achieved impressive results, including:

- overall outreach to nearly 1.4 million clients (one third of whom are women);
- average loan size of about USD 140;
- annual recovery rates of at least 95%;
- approximately USD 55 million mobilized in savings;
- approximately USD 150 million in the outstanding loan portfolio;
- about USD 35 million lent to microfinance institutions through commercial banks;
- approximately 540 rural savings and credit cooperative societies and seven unions established, with nearly 33 000 members (36% women);
- participating microfinance institutions have consistently complied with both cash liquidity and capital adequacy ratios set by the central bank; and
- audit and fiduciary requirements are being met.

Training in microfinance supervision has been provided to staff at the central bank. Support is also being supplied to strengthen the Association of Ethiopian Microfinance Institutions through training in strategic management, governance, risk management and impact assessment.

55. In the course of evaluating performance against IFAD's strategic framework objectives, the 2005 ARRI report found that about 70% of the projects were achieving either high, or substantial impact against strategic objective 3 (increased access to financial services and markets). However, the report considers extending financial services to rural poor people as a continuing challenge. It is noteworthy that most of the projects evaluated in 2004 were designed before the adoption of IFAD's rural finance policy in 2000. IFAD has moved forward since then, and recent rural finance projects have supported a variety of rural financial institutions devoted to reaching rural poor people on a sustainable basis. These institutions also do not impose the type of collateral requirements that would exclude the poorest members of communities. Moreover, the Rural Finance Policy Paper has been translated into a set of technical recommendations (IFAD's rural finance decision tools) that have been used systematically to improve project design and monitoring.

56. Overall, IFAD's involvement in conventional credit programmes has declined from over 23% of the total approvals during 1992-1996 to less than 11% during 2002-2005. In contrast, the share of rural financial services has increased from 2% to over 6% over the same period. While there is clearly a need to expedite the transition, the trend is very encouraging.

57. In addition to assisting in the expansion of microfinance services and reorienting conventional credit programmes, IFAD is working on new and innovative financing instruments such as remittances. Following the success of a project cofinanced through remittance resources provided from Salvadorian associations in the United States of America, new initiatives have been envisaged with migrant associations, NGOs, government representatives and international organizations. In 2004, IFAD and the Multilateral Investment Fund of the Inter-American Development Bank jointly launched a programme to promote remittance-based rural savings and investment in Latin America and the Caribbean. This focuses on empowering transnational communities based in the United States of America and communities of origin in Latin America and the Caribbean, particularly in the Dominican Republic, El Salvador and Mexico. In December 2005, IFAD obtained a EUR 4 million grant from the European Union to expand this remittance initiative outside Latin America.

Box 2: Towards Poverty-focused Rural Financial Services in Two Regions

The Near East and North Africa Division has worked mainly with state-owned agricultural banks. However, these banks have not been successful in reaching out to poorer rural groups. In 2005, the division started collaborating with leading international organizations to help it bring rural financial services directly to the rural poor. As a result, ACCION International will assess the interest and profitability of some commercial banks in adjusting their financial instruments to reach out to the rural poor, and the Consultative Group to Assist the Poorest will help the division develop a strategy for strengthening the rural financial sector.

There are areas where success has already been achieved. In The Syrian Arab Republic, policy dialogue between IFAD and the Government has led the Cooperative Agricultural Bank to open the way for collateral-free lending.

In the Sudan, a joint working group on rural finance composed of the Ministry of Finance, the Agricultural Bank and the Central Coordination Unit for the IFAD cofinanced programme, has recommended creating and institutionalizing a microfinance window within the Agricultural Bank of Sudan. This will build community capacity to manage microfinance programmes and institutionalize credit and savings organizations.

Similarly, in Georgia, dialogue is continuing to reorient the credit union movement towards greater sustainability through support for regionalization and a wider membership base.

In Bosnia and Herzegovina, IFAD has supported the Government in preparing a draft law on savings and credit associations that is expected to be adopted in 2006.

58. Over the past two years, IFAD has encouraged systematic performance reporting among the rural finance institutions it supports, through a global web-enabled database called the Microfinance Information eXchange (MIX). IFAD has also become one of the most active donors promoting the monitoring and impact assessment of social performance. Sustainability is a pillar of IFAD's rural finance policy and is highlighted in its rural finance decision tools. Realizing that bridging the gap between its normative instruments and innovative grants on the one hand and the reality of its operations in the field on the other will continue to pose challenges, IFAD has devised the rural finance action plan. Sustainability has become one of the core objectives embedded in all new rural finance programmes, and many activities highlighted in IFAD's rural finance action plan aim to strengthen the viability and sustainability of IFAD's rural finance operations.

59. Improvements in the areas of rural finance and markets will be achieved by:

- (i) continuing to support a variety of rural finance institutions and models that are able to reach rural poor people on a sustainable basis, including commercial banks when feasible (for example in the Near East and North Africa region);
- (ii) continuing to promote an active innovation agenda through grants in critical areas of rural finance (for example, remittances and microinsurance) and maximizing the grant links and impacts on IFAD loan programmes; and
- (iii) developing a select number of strategic partnerships with rural finance centres of excellence in support of IFAD interventions in the field and at the policy level.

B. Human Assets

60. Overall, IFAD's direct financing for the development of human assets is limited. But it has financed activities such as literacy training, primary education, basic health services and the supply of drinking water when these are considered critical. This has had generally satisfactory results and sometimes wide coverage, as under the District Development Support Programme in Uganda, which provided potable water to 200 000 rural people. Similarly, many IFAD projects promoting informal grass-roots institutions and microfinance institutions offer literacy classes and encourage members, particularly women, to participate. The classes also help the members to attain greater awareness of

hygiene and sanitation, nutrition, family planning and improved farming practices. In addition, classes help participants raise their confidence and their ability to speak in public, thus giving voice to those who tend to be voiceless.

61. As observed during the interim evaluation of the Gambia Rural Finance and Community Initiatives Project, vegetable gardens and village savings and credit associations had considerable impact on education and health care directly through improved diets and indirectly through higher incomes that allowed families to send their children to school. Some village savings and credit associations set up primary health care units in villages. Experience also shows that impact areas tend to reinforce each other. For example, in Bangladesh, the Aquaculture Development Project reported improvements in health and education services as a result of improved roads and transport, and the country programme evaluation on the Agricultural Diversification and Intensification Project noted that 40% of beneficiaries increased their access to drinking water through higher incomes that allowed them to acquire their own tube wells.

62. Overall, IFAD's investments in building human assets is rising. However, such investments need to be selective and of strategic value in view of the need to link investments directly to incomes and household food security. In addition to making these selective and strategic direct investments, IFAD will continue focusing on empowering people and giving them a voice, including by building grass-roots institutions, with the aim of creating demand structures that can negotiate the provisioning of basic services to rural areas and the rural poor.

C. Social Capital and Empowerment

63. Rural poor people suffer from material deprivation. They also suffer from powerlessness, a lack of freedom of choice and action. These factors tend to reinforce each other and compound the effects. Powerlessness stems from unequal power relations, and these are best addressed by building institutions among rural poor people. IFAD therefore assigns a very high priority to building social capital and organizations among rural people. It also relies on beneficiary participation where, as the self-assessment system shows, its performance is highly satisfactory.

64. The diverse requirements that projects make on IFAD have led to equally diverse grass-roots institutions. For example, these have taken the form of rangeland associations in Morocco, the Sudan and the Syrian Arab Republic. A research study showed that rural poor people who are members of rangeland associations under the two Kordofan development projects are more autonomous and more capable in managing rangeland than those who are not members. Similarly, the Azerbaijan Farm Privatization Project pioneered participatory irrigation management by establishing six water users associations covering 17 116 hectares. As these associations have proved financially viable, the project's participatory irrigation management model has been adopted nationwide, with the associations now managing around half of the 1.4 million hectares of irrigated land.

65. Because increases in social capital are difficult to quantify, grass-roots institution-building and the resulting initiatives can be used as proxy indicators. Internal reviews based on this perspective reveal strong ongoing performance, while identifying new challenges.

Box 3: Social Capital and Empowerment in Western and Central Africa

An important organizing force behind any local institution is a basic affinity among its members. In dryland areas in Western and Central Africa, water users associations are able to count on a strong shared interest in regular and reliable access to water. Through two interventions in northern Ghana, the associations are becoming important vehicles for promoting social capital horizontally and vertically:

- between different communities sharing irrigation facilities and handling conflicts over resource use;
- between landowners and tenants; and
- between communities and local government units.

Water users associations also carry out an important advocacy function in decision-making on public sector resource allocation.

In addition, although not originally planned at the project design stage, functional literacy groups have been used as a vehicle for adult literacy and numeracy training. Today, the groups not only appear to be stable or even expanding, but have moved on from literacy to developing other collective projects such as group-based income-generating activities. The internal cohesion of such groups may typically help secure small joint liability loans, deal jointly with the problems of individual households and become more involved and vocal in governance issues, within community institutions and beyond.

66. IFAD has also promoted widespread use of participatory methodologies, while keeping in view the empowering character of these methodologies. In Latin America and the Caribbean, for example, participatory approaches have been used since 1995 for community diagnosis, project design and budget allocation. This in turn has allowed for more democratic project design and a stronger sense of ownership by participating beneficiaries. In Bolivia, under the Small Farmers Technical Assistance Services Project, producer groups define their demands for technical assistance, select and hire private technicians and assume control and responsibility over the use of funds needed for contracting. In Brazil, under the Sustainable Development Project for Agrarian Reform Settlements in the Semi-Arid North-East, a participatory approach for sustainable development in the context of agrarian reform settlements is being replicated at a larger institutional level.

67. In most cases, initiatives affecting the lives of indigenous peoples require the early and sustained inputs of these people in order to ensure that proposals respond to their priorities and are in harmony with their culture and beliefs. Their participation helps achieve sustainable development, the desired impact on their livelihoods and conservation of the environment. Clearly, returns to participatory processes tend to be manifold in such situations.

68. Since its establishment, IFAD has relied heavily on increasing and making full use of social capital to empower rural poor people and to influence the terms of the engagement of the rural poor with governmental and non-governmental institutions, including markets. It has gained valuable experience in using social capital to empower rural poor people, particularly by creating and strengthening their organizations and reinforcing the role of communities in decision-making processes. This constitutes the principal strategy that IFAD has been pursuing in building local ownership, and the ARRI report's conclusion on this needs more analysis.

69. IFAD will continue to work in the area of social capital at several levels. For example, the Western and Central Africa Division's work on community-driven development will be intensified by first refining the decision tools and then finalizing them during 2006 by presenting them to a regional workshop that will bring together development agencies from anglophone and francophone countries. The Western and Central Africa Division will also draft an approach paper that will highlight IFAD's interpretation of community-driven development as highly process-oriented and focused on fostering the development of community-based organizations.

D. Household Food Security

70. Ensuring food security constitutes the core mandate of IFAD, and, consequently, it invests a quarter of its resources to achieve this objective. This is also the area where overall impact has been highest. In ensuring food security at the household level, IFAD applies both direct and indirect measures. As a large number of rural poor people depend directly on agriculture for their livelihoods, IFAD focuses on enhancing the productivity of agriculture and related activities, for example, through the development of technology. In this, projects in the loan portfolio are supported by a number of grant-funded applied research programmes. Examples in the Western and Central Africa region include:

- (i) Participatory Adaptive Research and Dissemination of Rice Technologies in West Africa (the Africa Rice Center);
- (ii) Poverty Alleviation and Enhanced Food Availability in West Africa through Improved Yam Technologies (International Institute of Tropical Agriculture); and
- (iii) Programme for Sustainable Vegetable Production and Marketing in West Africa (African Network for the Development of Horticulture).

71. Grant funds also play a crucial role in the Asia and the Pacific region, where the division is working with the World Agroforestry Centre, the International Centre for Integrated Mountain Development, the International Center for Tropical Agriculture, the International Potato Center and the International Rice Research Institute. In the Near East and North Africa region, in collaboration with the International Center for Agricultural Research in the Dry Areas, the Program for Enhancing Food Security in the Nile Valley and Red Sea region is piloting a number of varieties and cultivation techniques that produce good yields, are resilient to water shortage and show good efficiency of water use. Socio-economic studies conducted annually show that adoption rates for technologies affecting subsistence crops range from 60% to 90%.

72. The draft country programme evaluation on the loan-funded Agricultural Diversification and Intensification Project, in Bangladesh, recorded 30% to 40% increases in the frequency of consumption of protein foods. In addition, 80% of the beneficiaries reported a better quality in food intake. Similarly, a major impact on agricultural production and food security is being achieved by the root and tuber development programmes in Benin, Cameroon, Ghana and Nigeria through the development, multiplication and dissemination of improved cultivars and the development and dissemination of improved pest management practices. In Ghana, for example, the interim evaluation of the Root and Tuber Improvement Programme estimated yield increases of 30%, and, as a result, about 80 000 people – roughly 80% of the 100 000 who had effectively been reached by the programme – had substantially improved food security. The evaluation also rated the impact as highly likely to be sustained.

73. Similar results are reported elsewhere. In Lesotho, under the Sustainable Agricultural Development Programme for the Mountain Areas, community gardens have become reliable sources of easily accessible nutritious food. In the United Republic of Tanzania, under the Participatory Irrigation Development Programme, average yields of paddy are about 4 tonnes per hectare, double the local average. Coupled with the roads built under the programme, this has allowed a reduction in the period of food stress from five months to two.

74. Among indirect measures, access to financial services has played a significant role in enhancing food security. For example, in the North Kordofan area of the Sudan, when a drought hit in 2004, communities borrowed money to buy food either from the *sandug*, the village credit funds, or from the banks. In addition, most village development committees purchased and stored foods to ensure easy availability.

75. Increased income through microenterprises is another important way in which household food security is enhanced. Here, grant resources are also applied to support microenterprise production and marketing development, such as, for example, through the regional Rural Microenterprise Support Programme (PROMER) in Latin America and the Caribbean, which helps small-scale rural entrepreneurs learn how to use new information and communication technologies, develop their managerial skills and business capacities and improve competitiveness. In addition, IFAD's assistance in increasing the availability of potable water has helped to improve nutritional status, as reported through the Community Development Project for the Rio Gavião Region, in Brazil.

76. The high priority accorded by IFAD to enhancing the household food security of rural poor people has made a significant impact on their lives. However, there are some outstanding issues. First, high-input technology has very limited applications and impact in less-endowed areas. Second, rural poor people depend heavily on common property resources, and the ongoing portfolio has not made an adequate effort to address this issue. Third, the crucial role that women play in ensuring household food and nutrient security has yet to be fully internalized in project design processes. Fourth, the fact that microcredit can contribute to ensuring household food security in lean periods has yet to be fully taken into account.

77. In view of the above, IFAD will:

- (i) intensify the search for sustainable or regenerative agriculture for areas where resource endowments require such technology;
- (ii) pursue gender mainstreaming with renewed vigour; and
- (iii) continue assisting the transition towards full-service microfinance systems.

In addition, IFAD will seek uniform and consistent application of the household food security checklist and of the experience it has gained in terms of food and nutrient security.

E. Environment and the Common Resource Base

78. IFAD recognizes that the livelihood strategies and food security of rural poor people often depend directly on ecosystem capacities and on the diversity of goods and ecological services they provide. Since all food ultimately derives from the ecosystem, the sustainable management of terrestrial and marine ecosystems is considered a prerequisite to global food security. The world's poor people depend disproportionately on ecosystem services to provide for their systems of small-scale agriculture, grazing, hunting and fishing. Because of this realization, all IFAD projects are subjected to an environmental screening exercise during which potential environmental issues are identified and mitigation measures recommended. The resulting environmental screening and scoping notes and relevant working papers address the dynamics between poverty and environmental degradation.

79. Within the current resource allocation framework, significant emphasis is being placed on soil and water conservation. Success in this area has been substantial, although there is still a need for improvement. For example, in the Syrian Arab Republic, the Idleb Rural Development Project has effectively introduced the methodology of whole farm plans to ensure that land reclamation and de-rocking activities incorporate mitigating measures to counter potential on-farm environmental degradation, as well as potential damage to archaeological sites. Similarly, in the Eastern and Southern Africa region, a number of newer projects have paid explicit attention to the sustainable management of the natural resource base. The Mount Kenya East Pilot Project for Natural Resource Management is one example in which effective conservation of the ecosystem and ecosystem biodiversity is being addressed at the same time as household incomes are being increased.

80. Similarly, investment in soil and water conservation in northern Burkina Faso is being continued through the recently approved Sustainable Rural Development Programme, which takes

stock of the lessons learned so far and also includes a new emphasis on rural land tenure security. In addition, the Country Partnership Programme on Sustainable Land Management (Phase I) in Burkina Faso has started work. This is a Global Environment Facility pilot initiative that aims to assist eligible countries in addressing land degradation issues based on priorities outlined in the national action programmes on desertification and other such frameworks within the countries. The Country Partnership Programme is a multi-stakeholder initiative composed of a package of interventions to address land degradation, including policy, regulatory and institutional reforms, capacity-building and investments, through the launch of a single national-level platform for sustainable and equitable land management.

81. IFAD interventions that contribute to sustainable environmental resource management are built on the premise that rural poor people's rights to environmental resources are insecure because of the open access nature of the resources. Sustainable common property resource management practices are an important part of the solution. In Eastern and Southern Africa, the problem of fisheries is being tackled through two projects: the Sofala Bank Artisanal Fisheries Project in Mozambique and the Northern Fishing Communities Development Programme in Angola. Both of these support the development of a co-management system involving community organizations and government for the sustainable management of marine resources in the exclusive artisanal fisheries zone. This often means enhancing the capacity of beneficiary organizations to manage resources rationally and in a sustainable manner, as was the case under the Management of Natural Resources in the Chaco and High Valley Regions Project, in Bolivia. In Asia and the Pacific, IFAD is supporting the World Agroforestry Centre with a grant aimed at testing institutional mechanisms for rewarding IFAD target groups for the environmental services they provide. The aim of the grant is to enhance incentives for rural communities to continue to adopt environmentally sustainable production practices and land use systems.

82. IFAD has also learned that giving land back to indigenous communities limits depredatory use of natural resources by other settlers. The impact of the Sustainable Development Project by Beni Indigenous People, in Bolivia, which followed this approach, has been overwhelmingly positive. The approach has also involved giving public land on lease to poor households. This is the case in Nepal, where, having gained rich experience during an earlier phase, IFAD has now moved to a second phase. More recently, IFAD projects have been looking at organic agriculture, which involves the application of agronomic, biological and mechanical methods instead of chemical synthetic inputs, as a way towards sustainable agriculture. Where essential, grant resources have been used, for example, to promote the Medicinal, Aromatic and Dye Plants Programme in South Asia, which emphasizes smallholder organic cultivation of medicinal plants, as well as links to niche markets in the developed world.

83. In sum, the available evidence does not suggest that the overall return to investments in managing natural resources is significantly lower than in other sectors. The ARRI report's relatively low rating for the performance in this domain may therefore relate more to a resource allocation framework that finances projects not having a specific environmental objective or component. It is also noteworthy that a 'no harm' approach is always ensured. In some cases, low performance reflects the lack of an implementation approach that focuses on creating awareness among project staff and communities of the importance of sound environmental measures to ensure improved livelihoods.

84. In the near future, IFAD will be:

- (i) in collaboration with the Canadian International Development Agency, updating its strategic environmental assessments; and
- (ii) participating in a multi-donor collaborative study on water governance and advocating for the enhancement of the relevance of these activities to rural poor people.

85. In addition, reviews are being undertaken with respect to:
- (i) additional mainstreaming of the objectives of the United Nations Convention to Combat Desertification (UNCCD) in the IFAD portfolio;
 - (ii) IFAD's field experience on gender and desertification; and
 - (iii) the internal review and screening process regarding environmental assessments of projects dealing with the provision of financial services and small businesses and microenterprises.
86. IFAD will continue to work closely with the Global Mechanism of the UNCCD and use its Global Environment Facility Unit on issues such as integrated sustainable land management and the enhancement of ecosystem functioning. It will intensify its efforts to support the UNCCD, also linking the Global Environment Facility's Operational Programme on Sustainable Land Management with its projects by using its role as an executing agency of the Global Environment Facility.

F. Institutions, Policies and Regulatory Frameworks

87. It is crucial to influence policies to set the rules of the game that favour or at least do not work against poor people. However, IFAD has experienced some constraints in this area. First, historically, it has relied principally on the project mode of operations. Therefore, its capacity in the area of policies is relatively less developed, especially if the policy environment in a given country is complex. In addition, influencing policy requires financial resources, as well as knowledge resources, which, at times, are beyond IFAD's reach.
88. IFAD has been innovating grant instruments so that they support the policy-influencing process more effectively. While projects may provide a platform for sectoral policy-level discussions, it is often the use of non-lending instruments, especially country-specific analytical work and related capacity-building, that is critical to the development of effective policy dialogue.
89. Although IFAD has notable achievements in policy dialogue, enhanced engagement is necessary. IFAD's assistance programmes in many countries have been gradually moving towards the provisioning of more competitive services and away from an allocation of resources to various governmental or parastatal institutions as an entitlement. In Cambodia, for example, IFAD is assisting the Government in developing and formulating policies and legislation in the privatization of veterinary services. Its efforts have paid rich dividends in building grass-roots-level institutions, as exemplified by the success of microfinance services such as self-help groups in India. Decentralization is another area to which IFAD has accorded high priority, especially in enhancing the capacity of local authorities and communities to plan and implement their own development programmes. IFAD projects in Viet Nam have successfully decentralized a range of management functions down to the district level that are based on district government structures.

**Box 4: Making a Difference: the Southern Cone Common Market
Technical Assistance Grant**

The IFAD-supported technical assistance grant, the Institutional and Policy Support Programme to Reduce Rural Poverty in the MERCOSUR Area, is a pioneering and instructive example of the new role IFAD seeks to play in terms of policy dialogue and institutional change.

Subsequent to the recommendation of the workshop organized by IFAD in Montevideo in 1997 to ensure the integration of the rural poverty dimension in the process of commercial and economic decision-making, a technical assistance grant was approved to support the establishment of a regional coordination unit within the Common Market Council, the executive organ of the Southern Cone Common Market (MERCOSUR). This was truly path-breaking in two ways. First, the unit helped place rural development high on ministerial agendas, and, second, it provided support to IFAD-financed programmes in the region, as well as to the programmes of constituent governments.

In Paraguay, for instance, the unit helped establish partnerships, relationships and communication channels among key individuals and various, related governmental agencies. It thus became an official forum within the Southern Cone Common Market for policy dialogue among organizations of rural poor people, family farmers and government representatives. It has given the poor an instrument to voice their concerns and integrate them into the policy formulation and decision-making processes in the Southern Cone Common Market.

90. In the Sudan, IFAD's work has resulted in the enactment of legislation in favour of community organizations. This legislation gives the organizations a wide mandate, a wide range of possible activities and access to various sources of funding; at the same time, it ensures the representation of various socio-economic groups among the constituencies and executive committees of community organizations. Similarly, the country programme evaluation for Benin found that experience gained through the IFAD-assisted project had informed much of the work of the national committee charged with determining the new policy and regulatory framework for the microfinance sector.

91. Recently, IFAD has been supporting structures that assist countries within its regions to exchange experiences and learn from each other. To this end, in the Western and Central Africa region, a professional entity now offers policy advice and provides a permanent forum for the regular exchange of information and experiences. It also offers a space for debate with a view to harmonizing country and donor approaches and fosters strategic partnerships in key development areas at the country and regional levels.

92. The example of Viet Nam noted in the ARRI report, along with the examples mentioned above, shows that IFAD **can** influence development philosophies, principles and concepts, as well as other donors and governments, so that pro-poor policies and instruments are adopted. The lack of policy objectives in most of IFAD's projects and its emphasis on stand-alone projects have hindered IFAD's widespread influence on policies in the past. Having recognized these shortcomings, IFAD has committed itself to adopting a country programme approach that will enhance country dialogue, particularly at the sectoral level.

93. In addition, IFAD has realized the need to build larger apex organizations in order to influence national policies. It is therefore putting more emphasis on building secondary- and tertiary-level federations of grass-roots institutions and promoting coalitions among poor people. Similar efforts are being made to involve farmer organizations in the realization of national and international policies.

Box 5: Empowering Rural Poor People: the Asian Experience

IFAD projects in Asia and the Pacific have focused on building organizations among rural poor people, often with remarkable success. For example:

- IFAD projects are contributing to a gradual transformation of rural life in terms of women's self-image, their relationships with others and the recognition accorded to them as economic actors by the community at large.
- In the North Eastern Region Community Resource Management Project for Upland Areas, in India, about 65% of project funding was transferred directly to participating households for the implementation of project activities based on annual work programmes and budgets prepared by the households.
- By introducing and insisting on participatory rural appraisal, community participation and the creation of commune- and village-level mechanisms to enfranchise and empower people, the Ha Tinh Rural Development Project, in Viet Nam, has contributed concretely to introducing and mainstreaming a suite of tools, approaches and mechanisms into the provincial system.

However, project experiences show that without effective links at higher levels, such as with government or other civil society groups, community-based organizations tend to have limited access to markets and limited political influence. In response, a stronger focus on building and developing rural people's organizations and their coalitions and federations is now evident in many new projects.

G. Overarching Factors**Sustainability**

94. Previous ARRI reports have raised concerns about sustainability. Since the self-assessment system does not measure sustainability as such, the disconnect with the evaluation findings cannot be measured directly. If the PSR's measure of institution-building is used as a proxy indicator, the disconnect would be high because performance for this is rated high. However, institution-building is essential, but not sufficient in itself to ensure sustainability. Overall, the sustainability of physical investments has been found to be more positive; this is less the case for credit and other services.

95. In the light of the above, IFAD has taken a number of steps to improve sustainability. The first set of actions is based on the premise that effective local institutions play a crucial role in ensuring sustainability, and success has been noted as satisfactory in the majority of cases. At times, the sustainability of project-sponsored institutions has proved to be challenging. However, the choice is not easy. While existing local institutions tend to be more sustainable, they also tend to perpetuate existing social structures and the unequal balance of power that they represent. In cases where power relations are more egalitarian, the chance that institutions will be sustainable is better. For example, this is the case with herder cooperatives in the Syrian Arab Republic, where groups are now strongly committed to maintaining their engagement in managing their resources over the long term.

96. In addition, the following approaches are being adopted to enhance sustainability:

- (i) Many country programmes now support decentralization and the devolution of management of natural resources and the provision of extension and other support services to local governments or user organizations that have clear constituency and accountability mechanisms.
- (ii) Networking and federating grass-roots institutions and linking them with other service providers are other strategies being pursued to ensure sustainability.
- (iii) Where grass-roots institutions have adopted more democratic norms for their operations, IFAD has encouraged the formal certification of these institutions through registration

mechanisms. For example, in the Matale Regional Economic Advancement Project, in Sri Lanka, efforts are being made to convert farmer producer groups into companies and form strategic partnerships with large companies.

- (iv) IFAD has been supporting governments in the enactment of suitable legislation for registering grass-roots institutions, as observed for the Sudan.

97. Overall, recent project designs have emphasized the more rigorous application of participatory approaches during design and implementation on the premise that these enhance local ownership and management capacity and thus sustainability. More attention is also being paid to identifying and implementing exit strategies that are based on the application of local knowledge and institutions, while piloting mainstreaming approaches through IFAD-funded projects.

Gender Equality and the Empowerment of Poor Rural Women

98. In view of the priority accorded by IFAD to mainstreaming gender, the coverage of the PSR has been extended, and it now includes seven indicators. The ratings over the last three years for these indicators are presented in Annex II.

99. The PSR assessment and the conclusions of the divisional analyses show that the performance of IFAD projects is the least effective in terms of women's participation in decision-making bodies. Only 21% of projects are reported to be on or above target for this indicator, and about 22% are substantially below target. The results for gender focus during implementation are also cause for concern. Likewise, the overall rating for project performance in terms of women's empowerment may be considered low, although it is improving. Performance in terms of policy dialogue undertaken to enhance gender mainstreaming is also less than satisfactory. In addition, supervision reports are reporting relatively sparsely on gender-differentiated participation.

100. However, monitoring by project management units on gender-differentiated participation is satisfactory and improving. Targets for women's participation are being met in most cases. On the equitable participation of women in project activities and benefits, performance is better and is improving.

101. In essence, women's participation in decision-making bodies, while showing overall improvement, needs continued attention. Where IFAD has provided assistance through a process of social mobilization and support for the development of grass-roots institutions, success has been remarkable. For example, for the North Eastern Region Community Resource Management Project for Upland Areas, in India, the interim evaluation noted a sound gender balance in all natural resource management groups, and women are playing a significant role in economic and social sector activities. Through social mobilization and the establishment of self-help groups, women's status in communities has improved. Similarly, for the Agricultural Diversification and Intensification Project, in Bangladesh, an impact survey confirmed that the role of women in household decision-making had increased from 35% to 85% of women group members, while their participation in financial management decisions increased correspondingly from 30% to 89% of group members.

102. Continued attention to gender mainstreaming, as the portfolio review of Latin America and the Caribbean for 2005 reports, requires integration of gender issues in all phases of the project cycle starting with the country strategic opportunities paper (COSOP), backed up, where necessary, by gender studies. Apart from making gender an integral part of all components during formulation and appraisal, the incorporation of gender issues at project start-up workshops and the adequate prioritization of women's empowerment throughout the implementation phase are considered crucial. These principles will be used to guide further gender mainstreaming and the empowerment of women in IFAD operations. They will also be applied in the context of more vigorous implementation of the Gender Plan of Action.

Progress on the Gender Plan of Action

103. **Background.** The mid-term review of IFAD's Gender Plan of Action 2003-2006 was conducted in 2005 primarily as a participatory learning exercise (Annex III). Additional resources will be needed on completion of the Gender Plan of Action to undertake a full assessment of performance against the quantitative benchmarks established by the baseline survey of 2003.¹² The ongoing evaluation of IFAD's grant-funded regional gender programmes and findings from the recently finished survey of projects will complete the overview of IFAD's work on gender.¹³ This summary concerns principally the PMD-related Gender Plan of Action initiatives, complemented by early findings from the questionnaire survey.

104. **Impact achievement in the project cycle.** COSOPs scored 63% on incorporation of gender concerns, as compared to the 2003 baseline score of 79%. This may be due to sample differences. Relatively weaker areas in COSOPs are the extent to which lessons learned on gender are reflected and the identification of issues requiring policy dialogue. In terms of compliance with the Gender Plan of Action's Prerequisites of Gender-sensitive Design, 2005 projects scored 49% at formulation and 59% at appraisal, which is a minor improvement over the 2003 figure. Differences in compliance across regional divisions are fairly substantial. Two regions are systematically using start-up workshops (Gender Plan of Action, Action 5) to discuss gender issues, and the need was expressed in divisional meetings for guidance and resources to improve the effectiveness and coverage of start-up workshops, which are considered a critical milestone in gender mainstreaming during implementation.

105. Ensuring continuity between design and implementation through supervision and capacity-building continues to be flagged as a need; this is closely related to improvement in IFAD's field presence and the Fund's ability to provide backstopping and capacity-building through projects. So far, some of the latter functions have been provided by IFAD's grant-funded gender programmes, which raises the question of continuity once the programmes end. While implementation support and training continue to be needed in a large number of ongoing projects, the high response rate (55%) to the questionnaire survey for ongoing projects reflects a significant level of interest in the subject, as well as a demand for improved communication with IFAD and for technical support.

106. Gender-related tasks and responsibilities are mentioned as part of the duties of half the responding project directors; 74% of responding projects have undertaken training among project staff on gender; 80% collect gender-disaggregated information; and 64% indicate that supervision missions regularly request gender-disaggregated data.¹⁴ The corporate-level evaluation of IFAD's Direct Supervision Pilot Programme in 2004/2005, which compared both types of supervision, showed that, while more costly, direct supervision is more conducive to ensuring implementation of the Gender Plan of Action since greater emphasis was put on IFAD-specific concerns such as gender mainstreaming, targeting, empowerment and participation.

107. **The way forward.** The mid-term review indicated that, while some progress has been made, especially where institutional efforts have been complemented by regional gender programmes, it will be necessary during the latter part of the Gender Plan of Action to scale up efforts and resources to build greater and more balanced ownership of the plan, build the awareness and capacity of IFAD staff and consultants and make significant progress relative to the baseline benchmarks. Specific recommendations relate to the need for a stronger integration of Gender Plan of Action initiatives into ongoing institutional processes; enhanced efforts and resources to provide orientation and capacity-building, including tools and guidance notes to IFAD staff, consultants and implementing partners in the field; an early decision on the future of the activities currently financed through grant-funded

¹² Findings from the baseline survey were included in the Portfolio Performance Report of 2004.

¹³ Reports due by year-end 2005 and in April 2006, respectively.

¹⁴ Underperforming projects were likely to be underrepresented, and response rates varied considerably from one region to another.

programmes; and more effective work methodologies at the policy level within the harmonization framework.

Innovation, Replication and Scaling Up

108. Given the asymmetry in the resources it commands and its challenging mandate, IFAD realizes the importance of recognition of its role as a catalyser of rural poverty reduction. It also realizes that introducing or helping to introduce innovation and replicating innovations and scaling them up when they are found to be successful are very important. This also involves information and communication technologies. For example, IFAD is currently promoting the development of pilot projects in Peru and the United Republic of Tanzania to support small-scale producers in accessing new markets through the use of information and communication technologies.

109. IFAD has adopted various ways to contribute to knowledge sharing. Project and exchange visits are one method. For example, the Badia Rangelands Development Project in the Syrian Arab Republic has become well known in several other countries in the region, and study tours to project areas have been organized for technical staff from Jordan, Oman and the Sudan. Similarly, Azerbaijan and Georgia are collaborating through exchange visits.

110. IFAD has also actively supported knowledge networks so that the knowledge gained from IFAD projects is disseminated among stakeholders. In Latin America and the Caribbean, through the efforts of FIDAMERICA, knowledge is managed through a system of storage, learning and dissemination. The methods used involve a website and databank, workshops and e-conferences among technicians and beneficiaries from various IFAD projects.

111. The Eastern and Southern Africa region has adopted a somewhat different approach to knowledge management and is supporting two independent knowledge networks, both membership-based associations. The first, the African Rural and Agricultural Credit Association (AFRACA) provides IFAD project participants with a unique opportunity to meet their peers on an informal basis and other types of players in rural finance and to learn from each other. The second, PhytoTrade Africa, is the Southern African Natural Products Trade Association; its membership currently stands at around 50 NGOs, small companies, research organizations and individuals from eight countries in southern Africa. All share a commercial or research interest in natural products. Over the short period of its existence, the association has become not only a key player in the global natural products industry, but also a global source of knowledge on a range of natural products and their properties.

112. The information generated during the portfolio review process validates the ARRI report's findings on innovation. For example, in recent years, the region of Latin America and the Caribbean has achieved path-breaking work in the area of remittances, and, as a result, IFAD is at the forefront of maximizing the impact of remittances on rural development. Aiming at effective knowledge sharing, the Latin America and the Caribbean region has highlighted the importance of remittances for rural development and created partnerships with various stakeholders. In Bolivia, under the new approach to technical assistance, beneficiary groups take an active role in decisions related to outsourcing services; this has substantially improved quality and sparked the development of a market for such services, which is considered promising.

113. Similarly, in the Syrian Arab Republic, the Minister of Agriculture has decided to scale up the participatory rangelands management approach in the Badia Directorate, following the lessons generated by an IFAD project. In Azerbaijan, the participatory irrigation management model developed through the Farm Privatization Project has been adopted nationwide. Similarly, The Peruvian Ministry of Agriculture has adopted the Management of Natural Resources in the Southern Highlands Project methodology as part of its own policy for development. In Panama, IFAD's approach to addressing the needs of indigenous groups (that is, collective land titling, participation in decision-making, decentralization, etc.) has been adopted by the Government as an instrument for

reducing poverty in the country. Based on successful activities in Benin and Guinea, the financial services association model is being gradually mainstreamed in the region and beyond.

114. In some cases, replications have moved beyond national boundaries. For example, the rural finance interventions supported in The former Yugoslav Republic of Macedonia have been scaled up in a gradual manner, and the refinancing concept pioneered in the country has since been applied in Armenia, the Republic of Moldova and Romania.

115. Through the Initiative for Mainstreaming Innovation (IMI), ten innovative projects were financed in 2005 and are now being implemented. Other activities include the development of new financing instruments for innovative projects; training, field exposure programmes and seminars for staff; and improvement in communication tools in innovation, for example, the establishment of an innovation intranet, as well as the development of the rural poverty portal.

116. Despite these successes, in the projects rated highly for innovation by the ARRI report in 2004, replication effects are modest. A number of factors explain this. First, replication has a certain time lag, and replications are not easily identified in interim evaluations, which predominated in the 2004 evaluation. A relative lack of micro-macro-linkages and of policy-influencing processes also limits replication. Another underlying reason is the relatively weak knowledge management process that is in place. This is partly structural – caused, for example, by over-reliance on outsourced supervision without compensatory arrangements for knowledge capture and sharing – and partly process-related, a result of the lack of strong horizontally linked thematic learning and sharing processes.

117. IFAD has realized the challenge in knowledge management and innovation that it faces, and this constitutes one of the three key areas proposed in the action plan. Through the plan, a knowledge management strategy will be developed and implemented. Similarly, promotion and experimentation with innovative approaches through the Initiative for Mainstreaming Innovation (IMI) will continue.

VI. TOWARDS GREATER IMPACT: IMPROVEMENTS IN PROCESSES AND INSTRUMENTS

A. Results and Impact Management System

118. Following Executive Board approval of the framework for a RIMS for IFAD-supported country programmes (EB 2003/80/R.6/Rev.1) in December 2003, the Fund began work on mainstreaming the results and impact management within existing projects, project design processes and headquarter reporting systems. The first reporting on RIMS indicators was presented to the Executive Board in April 2005.

119. For newly effective projects, country programme managers (CPMs) and project management teams agreed on the RIMS indicators on which projects would report in 2005 and beyond. For many of these projects, the RIMS indicators had already been incorporated in project logical frameworks. Targets for the annual workplan and budget were identified, and cumulative appraisal targets were estimated where possible. Project teams were requested to provide data on a project-year (rather than calendar-year) basis. Project management teams returned the forms to IFAD with values for actual results.

120. **RIMS reporting.** Results were reported for 86 projects in 2005, equivalent to a 30% increase over 2004 and about the number of projects that became effective in 2004.¹⁵ Forms were received on six projects that had become effective in 2005, indicating that the project management units had

¹⁵ A total of 103 projects were expected to report this year. Some of the projects that did not report have experienced delays in recruitment of project staff or in procurement and changes in project management or they are operating in insecure situations. Three of the projects that did not report had disbursements of 5% or less.

begun to internalize RIMS. Disbursements for reporting projects range from as high as 96% of the original loan to as low as 0%,¹⁶ with an average of about 33%, implying a relatively young cohort of projects, as expected.

121. Reporting on results has been organized according to the impact domains that IFAD uses for evaluating its projects. This will allow for convergence between the self-reporting and independent evaluation exercises. In addition, the indicators have been placed in a cause-and-effect hierarchy in order to demonstrate the potential results chain within each domain cluster. Reporting still focuses on first-level results, although more second-level results were reported this year than last. In three to four years, data related to impact will be available.

Table 2: Results by Domains

Domain	Projects Reporting	% Total Projects	Total Count of Indicators Reported	Average Count
Physical and financial assets	76	88	475	6
Human assets	75	87	479	6
Social capital and people's empowerment	73	85	320	4
Food security	45	52	123	3
Environmental and communal resource base	39	45	71	2
Pro-poor institutions, policies and regulatory framework	9	10	11	1
Total	86	100	1 479	17

122. For each domain, the results reported for 2005 are shown in tables with ratings assigned in relation to the annual programme of work and budget targets for 2005. Details on results are presented in Appendix II in Volume II. Projects that met or exceeded the targets were rated as "achieved"; those that met at least 70% of the targets were rated as "mostly met"; and those below 70% were rated as "below". Overall, for indicators for which targets were available, about 65% were achieved or mostly met.

123. Planning figures were not available for a relatively large number of indicators, almost 40%. This is especially the case for second-level indicators for which results cannot be readily planned and which are often beyond the immediate control of project management (for example, many factors influence whether enterprises are still operating three years after receiving project support). In a number of cases, comparisons to annual workplans and budgets could not be made because projects have had difficulty retrofitting RIMS into existing systems. The forward planning of results is an area that requires greater attention. The analysis also reveals that input usage (or budgetary factors) takes precedence in planning processes. The RIMS framework supports the transition of planning processes away from input- and resource-driven processes towards processes that are oriented towards results. This transition, however, will take time to achieve, and it may be difficult to align with government planning processes.

124. Illustrative results reported for projects in 2005 include:

- (i) **Physical and financial assets:** 76 projects (88%) reported an average of six indicators in this domain. About 2 million people (gross loan portfolio of about USD 291 million) were reported as active borrowers, which translates to an average loan size of about USD 150, and more than 5 million were reported as active savers, with savings totalling about USD 269 million, or USD 54 per saver. About 35 projects reported on infrastructure in support of the accumulation of physical and financial assets, including

¹⁶ The significant government financing allowed early reports on results, even before the IFAD loan disbursed.

irrigation infrastructure, market facilities and roads. Some 21 170 farmers reported increases in herd size, and about 22 000 enterprises were established or strengthened.

- (ii) **Human assets:** 75 projects (87%) reported an average of six indicators in this domain. Infrastructure in support of the development of human assets included the construction or rehabilitation of about 160 schools, 47 clinics and drinking water and sanitation schemes. Literacy training was provided to men and women, totalling more than 81 500 people. Other types of training were provided to almost 485 000 people.
- (iii) **Social capital and people's empowerment:** 73 projects (85%) reported on an average of four indicators in this domain. Some 15 000 groups were reported as formed or strengthened, with membership totalling more than 330 000 people. Twenty-three projects reported that more than 1 400 action plans had been prepared; almost two thirds were to be included in local government plans.
- (iv) **Food security:** 45 projects (52%) reported on an average of three indicators in this domain. More than 200 000 farmers reported increases in production or yields in 2005, about 70% of those who accessed some form of project technical advisory services. Almost 100 000 additional hectares were planted to food crops. About 72 000 households were reported to have increased food security.
- (v) **Environmental and communal resource base:** 39 projects (45%) reported on an average of two indicators in this domain. Improvements to land, including soil and water conservation, were carried out on about 71 000 hectares. Resource management plans were enacted by some 745 communities.
- (vi) **Pro-poor institutions, policies and regulatory framework:** 9 projects (10%) reported on indicators in this domain. Six projects reported that enabling policies had been promulgated in support of a more pro-poor policy framework. Changes in the regulatory framework were in the areas of marketing, agriculture, water user associations and the institutional framework for cooperatives. Decentralization processes were supported in five countries.

125. Eighty per cent of the projects reporting results for 2005 provided gender-disaggregated information, averaging about four indicators per project. This is encouraging, but greater effort needs to be made. The most readily available information was in the rural financial services area, which showed a high degree of participation by women. Figures for training were also regularly disaggregated.

Box 6: Tools for Impact Assessment

In 2005, IFAD finalized a set of tools to assist project management teams in carrying out impact assessments. In addition to the survey carried out in Senegal in 2004, pilot surveys were carried out in Bangladesh, Jordan, Kenya and Nicaragua to test the questionnaire and survey methodology. Based on the experience gained in the five pilot surveys, the impact assessment questionnaire was finalized. The impact survey will allow for benchmarking of the household asset index, the extent of child malnutrition in the project area, literacy rates among women and men, and household access to safe drinking water and sanitation, thereby providing data points on the Millennium Development Goals most relevant to IFAD.

A software application was developed to assist project management teams with data entry and analysis. The software provides a user-friendly interface to record the questionnaire responses and to generate predefined reports for analysis. The use of a standard methodology will help reduce errors in data entry and allow for easier analysis of the findings. It will also increase comparability across projects.

A comprehensive manual was developed in partnership with Counterpart International, a leading NGO in the field. The manual is divided into three parts and provides guidance on preparing for an impact survey, conducting an impact survey and entering and analysing survey data. An annotated table of contents for the report of the survey is also provided.

The survey questionnaire and manual are available in all IFAD official languages; preparation of the software application in the official languages is expected to be completed by mid-year. These tools are available on the IFAD website and on CD-ROMs.

126. **Challenges and the way forward.** This year's experience with RIMS has contributed to IFAD learning and has demonstrated the difficulties of retrofitting new corporate initiatives into existing projects. The exercise of matching RIMS indicators with the monitoring and evaluation systems of ongoing projects has turned out to be more complicated than expected. By contrast, the integration of RIMS into new projects is generally progressing well.

127. Based on experiences over the last two years, the following issues will need to be addressed to ensure that RIMS data provide a reliable and comparable indication of project results and impact.

- (i) **Indicators are not always uniformly understood.** While the meanings of first-level indicators present few problems, the meanings of second-level indicators have been variably interpreted. (For example, the term 'improved management practices' does not appear to be commonly understood.) The variability of the data provided for some indicators also implies that the meanings have not been fully understood. (The distinction, for example, between 'persons adopting project recommended technologies' and 'persons accessing technical advisory services facilitated by the project' seems to have been lost.)

To mitigate the above problems, practical guidance describing the meaning and intention of each of the indicators in greater detail will be prepared and issued in 2006 and will include suggestions on data collection methods (particularly for second-level indicators).

- (ii) **Capacity-building efforts need to be intensified.** Although issues related to RIMS have been discussed at regional events, greater efforts at the project and country levels need to be made.
- (iii) **RIMS is perceived primarily as a reporting requirement of IFAD.** Some project managers, especially those managing projects funded by a large number of donors, see RIMS as a top-down performance reporting system. This is an additional reason why capacity-building efforts should be strengthened at the country level.

B. Direct Supervision

128. IFAD initiated the direct supervision of 15 projects following the adoption of a resolution by the Governing Council in 1997. The Direct Supervision Pilot Programme aimed to acquire firsthand knowledge from supervision activities and to incorporate lessons learned from ongoing operations more effectively into project design work. It was also to provide IFAD with “knowledge of the supervision function, of what are the costs of adequate project supervision ... and of the development impact and human dimension of the projects in its portfolio.”

129. Overall, the evaluation of the Direct Supervision Pilot Programme, undertaken by OE in 2004-2005, consistently found that, compared with supervision by a cooperating institution, direct supervision has greater potential to contribute to better development effectiveness at the project level, while, at the same time, allowing greater attention to IFAD’s broader objectives at the country programme level. The Direct Supervision Pilot Programme also allows IFAD to emphasize issues of prime concern such as gender mainstreaming and the targeting and building of grass-roots institutions, which, taken together, are important elements in ensuring sustainability. It provides wider opportunities for policy dialogue and partnership development. It also contributes to developing IFAD’s knowledge base and allows CPMs to strengthen country-level coordination.

130. However, a number of shortcomings were also noted. These included flagging interest; no mid-term reviews, analytical accounting systems, or effective monitoring systems; and a lack of a common understanding of certain aspects. The knowledge institutionalization process has also been weak.

131. Following the evaluation mentioned above, the Governing Council decided to enable IFAD management to pursue a wider range of choices in selecting cooperating institutions or supervising IFAD projects directly. The Governing Council took three interrelated decisions: the Direct Supervision Pilot Programme should be continued; the range of institutions that are entrusted with the administration of projects should be widened to include competent national, regional, international, or other institutions or entities; and, with the authorization of the Executive Board, it should be possible occasionally to supervise project implementation directly.

132. At the end of 2005, of the 15 pilot projects of the Direct Supervision Pilot Programme, 12 are ongoing. A list of these projects is presented in Annex III.

C. Flexible Lending Mechanism

133. The Flexible Lending Mechanism (FLM) was approved as a financing instrument by the Executive Board in 1998 in view of the decentralization of public administration that began in the mid-1990s and the consequent need for capacity-building investments requiring longer term commitments. In general, FLM projects represent a continuing and evolving design process, a longer phased loan period and the specification of clearly defined preconditions or triggers for proceeding to the subsequent implementation phase.

134. At the end of 2005, IFAD had 18 ongoing programmes and projects financed under the FLM.¹⁷ Of these, during 2005, five inter-phase review missions were carried out. Following the review, the first phase of the Rural Financial Services Development Programme, in Niger, was extended by 19 months. In the case of Nicaragua and the Sudan, the achievements were found to be satisfactory, and the second phase was then approved. Reviews for the Participatory Smallholder Agriculture and Artisanal Fisheries Development Programme, in Sao Tome and Principe, and the National

¹⁷ Twenty FLMs were approved by the Executive Board; however, in 2003, the Executive Board agreed to change the status of the loan for Bhutan from FLM to a “regular” loan, and, in 2004, an FLM-financed programme in Lebanon was cancelled.

Microfinance Support Programme, in India, have been completed, and proposals for the decision of management are expected to be submitted soon.

135. According to the original programme design, two more programmes – the Rural Development Programme for Las Verapaces, in Guatemala, and the Productive Initiatives Support Programme in Rural Areas, in Haiti – should also have been the subject of inter-phase reviews. These were postponed until 2006. These postponements will allow more implementation time, particularly in the case of Haiti, for which the supervision mission of the United Nations Office for Project Services reported sluggish implementation caused by the unstable political situation and the consequent suspension of disbursement.

136. In sum, of the 18 projects, 11 are currently in their first phase, and 7 have been triggered for the second phase (Annex IV). Of these seven, five have a disbursement above 40% of the approved amount, and two are below that disbursement: the Rural Financial Services Programme, in the United Republic of Tanzania, at 37%, and the Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua, in Nicaragua, at 15%.

D. Field Presence Pilot Programme

137. The Field Presence Pilot Programme was approved by the Executive Board in December 2003. It aimed at helping IFAD realize its vision and strategic framework objectives by strengthening and integrating four interrelated dimensions: project implementation, policy dialogue, partnership building and knowledge management. It is to be implemented over three years through 15 initiatives and with an approved budget of USD 3 million. The design work on all 15 initiatives was completed by December 2004. All initiatives, except the one in Yemen, have now become operational.

138. Of the 15 initiatives, the United Nations Development Programme is or will be housing seven: the Congo, Egypt, Ethiopia, Nigeria, Senegal, Uganda and Yemen. The other partners under the Field Presence Pilot Programme are the Food and Agriculture Organization of the United Nations, in the United Republic of Tanzania; the World Food Programme, in China and India; the German Agency for Technical Cooperation (GTZ), in Bolivia; and government or other arrangements, in Haiti, Honduras, the Sudan and Viet Nam. As most initiatives are chosen on the basis of the size of the portfolio, the total project coverage is large: 64 investment projects, or about 28% of the current portfolio of projects.

139. These initiatives are small and involve only one or two staff members. With an average of four to five loans, a number of ongoing grants, some policy initiatives, and one or two projects under development, the demand on staff time is high.

Table 3: Field Presence Pilot Programme – Country Distribution

Countries	Number of Projects ^a	Countries	Number of Projects ^a
Western and Central Africa		Latin America and the Caribbean	
Congo and the Democratic Republic of the Congo (Kinshasa)	3	Bolivia (La Paz)	2
Gambia and Senegal (Dakar)	7	Haiti (Port au Prince)	2
Nigeria (Abuja)	3	Honduras and Nicaragua (Tegucigalpa)	4
Eastern and Southern Africa		Near East and North Africa	
Ethiopia (Addis Ababa)	4	Egypt (Cairo)	3
Uganda (Kampala)	5	Sudan (Khartoum)	4
United Republic of Tanzania (Dar es Salaam)	5	Yemen (Sana'a)	5
Asia and the Pacific		15 Offices	64
China and Mongolia (Beijing)	7		
India (New Delhi)	8		
Viet Nam (Hanoi)	2		

^a Projects refer to the current portfolio, that is, projects approved by the Executive Board, but not completed. Field Presence Pilot Programme projects represent 28% of IFAD's total current portfolio of 232 investment projects.

140. As reported in the last Portfolio Performance Report, progress in setting up the initiatives took more time than expected, largely because of IFAD's desire to find the appropriate partners. A number of factors explain this. First, limited budgets among units did not offer opportunities for partnerships with institutions such as the World Bank. Second and more importantly, IFAD's relative inexperience in managing initiatives in the field and consequent delays in arriving at a consensus on matters such as the format and content of the memorandum of understanding, the procedure for the release of funds to sister United Nations agencies and the recruitment process to be adopted also contributed to slower than anticipated start-up.

141. In terms of operational results, the Field Presence Pilot Programme has contributed in implementation support and in facilitating communications among IFAD headquarters, member governments, the projects and the cooperating institutions. Other areas where preliminary results are encouraging are knowledge management and partnership building, including improved donor coordination. From a learning perspective, individual CPMs have also gained significant experience in negotiating field presence pilot initiatives with collaborating agencies.

142. The evaluation of the Field Presence Pilot Programme has begun, and the final report is expected to be available by mid-2007.

E. Performance-Based Allocation System

143. Following approval of the structure and operation of the Performance-Based Allocation System for IFAD by the Executive Board at its seventy-ninth session, in September 2003,¹⁸ the first performance assessment was carried out by the end of the second quarter of 2004, and the 2005 programme of work grounded on the Performance-Based Allocation System was approved by the Executive Board at its December 2004 session. The country scores were released on 15 January 2005.

144. On the positive side, as reported to the Executive Board in September 2005, the rural sector performance assessments have provided the basis for the introduction of policy dialogue at the operational level. The small size of IFAD's operation in relative terms poses certain challenges because of potentially wide fluctuations in portfolio performance scores, as well as the effect this may have on reducing the average loan size. The September 2005 review of the implementation of the Performance-Based Allocation System identified several areas for modification: (i) the weight accorded to the population: with the large variations in population among IFAD Member States, this

¹⁸ Document EB 2003/79/R.2/Rev.1.

resulted in large differences in country scores (and the subsequent allocations) that led to the need to introduce maximum and minimum allocations for up to 25 countries; and (ii) rural population: given IFAD's mandate, this was considered a more appropriate indicator of the needs of the rural poor in line with IFAD's role and focus.

145. The Executive Board asked for reviews on these issues.

F. Private-sector Development

146. IFAD's private-sector development and partnership strategy, approved in April 2005, sets out a results framework for the period 2005-2008. This framework is divided between process indicators (those that measure the extent to which IFAD country programmes and projects respond to the private sector) and outcome indicators (those related to the effect on rural poor people of engagement with the private sector). Results related to the latter will largely be measured through RIMS indicators. It is premature to draw definitive conclusions from any of the results reported; however, the following key performance indicators, set out in the framework, were reported for RIMS by projects in 2005:

- (i) some 22 000 enterprises were established or strengthened, leading to the creation of about 7 000 jobs (in addition to new owners and operators);
- (ii) about 190 storage and 150 processing facilities were constructed or rehabilitated;
- (iii) some 250 market facilities were constructed or rehabilitated; and
- (iv) approximately 2 350 kilometres of roads were constructed or rehabilitated.

147. In terms of the process indicators related to IFAD country programmes and projects, the key performance indicators are divided between those which will be responded to through COSOPs and those related to specific project designs. A review of the COSOPs and of the projects presented to the Executive Board in 2005 shows that significant progress has already been made in engaging with the private sector. It should be noted that, although these were presented to the Executive Board in 2005, development work had been undertaken before the approval of the private-sector strategy.

148. In all of the countries in which IFAD operates, opportunities to involve the private sector are dependent on existing policies and the institutional framework, which may not be favourable to private-sector actors. In others, the private sector is underdeveloped and mainly composed of numerous small local operators with limited scope for economies of scale and national coverage. The extent to which an IFAD country programme can engage the private sector is very context specific. Of the 11 COSOPs and one regional strategic opportunities paper¹⁹ presented to the Executive Board:

- (i) nine include strategies to engage in policy dialogue for local private-sector development;
- (ii) nine COSOP consultations included private-sector representatives;
- (iii) eleven include policy dialogue to support the local private sector; and
- (iv) eleven provide for partnership possibilities with the private sector.

149. The progress related to the key performance indicators for projects was substantial in 2005, exceeding the targets for four of the five indicators. Of the projects submitted to the Executive Board in 2005:

- (i) twenty-two (71%) included activities to strengthen the business capacity and skills of targeted rural poor people or their organizations (compared to a target of 20-25%);

¹⁹ The regional strategic opportunities paper was for three countries in Central Asia: Kazakhstan, Kyrgyzstan and Tajikistan.

- (ii) seven (41%), with a component for agricultural production and related advisory services, provide for the delivery of such services through the private sector (compared to a target of 25-50%);
- (iii) twenty (87%), with a rural financial services component, support, strengthen, or scale up private-sector institutions (compared to a target of 50-75%); the delivery of such services will occur through microfinance institutions, village credit and savings associations and commercial banks;
- (iv) twenty-one (68%) link small farmers with private markets or intermediaries (20 projects) or support the development of small and medium enterprises (22 projects), compared to a target of 20-25%; and
- (v) nine (29%) provide for cofinancing from the private sector (compared to a target of 15%); of these, six foresee financing from domestic commercial banks, two from local NGOs operating in the microfinance institutional sector, and one (in Albania) from a foreign private sector investor (Rabobank).

G. Post-crisis Assistance

150. Historically, IFAD's engagement with crises has been significant. During the period 1995-2005, the Interdisciplinary Research Projects on Root Causes of Gross Human Rights Violations (*Projecten interdisciplinair onderzoek naar oorzaken van mensenrechtenschendingen*) classified 73 IFAD Member States as affected by violent conflicts of one kind or another. In the last ten years, IFAD has had 188 projects in those countries, at a total cost of about USD 6.4 billion, to which IFAD committed loans for a total of approximately USD 2.8 billion.

151. IFAD's operations in 2005 were no exception. In fact, besides working in countries affected by conflict, IFAD had to respond to the tsunami in Asia through the expedited approval of four programmes and the restructuring of the portfolio in Pakistan following a devastating earthquake. With new approvals and other management actions, the portfolio in the Congo, the Democratic Republic of the Congo and Sierra Leone have been reactivated. Similarly, a COSOP has been developed for the first time for Angola, and implementation is being intensified through the Transitional Programme of Post-Conflict Reconstruction approved in 2004 for Burundi.

Box 7: Post-conflict: South Kordofan Rural Development Programme, the Sudan

For decades, the South Kordofan state of the Sudan endured civil strife that disrupted local livelihoods, caused population displacement and resulted in increased poverty and vulnerability. By 2000, the conflict had significantly abated, paving the way for a ceasefire agreement between the Government and the Sudan People's Liberation Movement and, eventually, the signature of a comprehensive peace agreement in January 2005. Recognizing the need to support the nascent peace process, the Executive Board approved a loan, financed under the Flexible Lending Mechanism, for the South Kordofan Rural Development Programme in September 2000.

The programme approach to implementation stems from the recognition that addressing poverty in conflict-affected areas, where competition over natural resources is high, requires development strategies that give priority to agriculture and the natural resource management sectors, promote rational land reform policies, establish mechanisms for equitable resource allocation and include communities in decision-making.

Inter-phase review missions in 2005 found that a central achievement was the programme coverage in all localities in South Kordofan and the use of poverty- and participation-based criteria to target communities and ensure the equitable outreach of the programme among all population groups and to the districts that suffered particularly from civil strife. Other achievements included support for population settlement through matching grants to communities to finance basic health services and water supply and the empowerment of local communities. These approaches are now being replicated by donors (the World Bank, the European Union) resuming assistance to the Sudan following the signing of the comprehensive peace agreement.

H. Harmonization and Alignment

152. The aid effectiveness agenda is conceptualized as a pyramid, with harmonization at the base, alignment in the middle, and ownership at the top, with the expectation that harmonization and alignment promote ownership. Because it has long promoted government ownership of projects and development processes, IFAD has no difficulty, at least in conceptual terms, in accepting the principles of alignment and harmonization and working towards these stated goals.

153. However, the practice in Eastern and Southern Africa, where the harmonization process is perhaps most intense, suggests that the aid effectiveness pyramid has, on occasion, been inverted, with more attention paid to harmonization and alignment than to government ownership. Experience in a number of countries, such as Mozambique and Uganda, suggests that the harmonization agenda and the sector-wide approach to programming through which it is realized have not always been used for the stated purposes and, in some cases, have inadvertently strengthened the influence of the development community over government actions, policies and expenditures.

154. One particular new aspect of the harmonization agenda that deserves mention is the joint assistance strategy. In Eastern and Southern Africa, experience has been gained in Uganda, the United Republic of Tanzania and Zambia, where similar processes are under way. Some of the emerging lessons are that:

- (i) a comprehensive poverty reduction strategy, as well as mature sector-wide approaches to programming, helps development partners align their support and make drafting the joint assistance strategy easier;
- (ii) disengaging from certain sectors is difficult for many donor partners, and few are willing to act as 'silent partners'; and
- (iii) the Uganda joint assistance strategy required in-depth preparation and considerable time and investment to determine joint expectations and approaches.

155. On a more general level, a related lesson emerging from the aid effectiveness agenda is one related to transaction costs. Experience suggests that, in the short term at least, the transaction costs of this new way of doing business are actually considerably higher than those associated with the former approach. As a result, there has been a significant increase in the cost of doing business for IFAD, too – more time is required to ensure broad buy-in by in-country development partners for investment programmes and other engagements, and an increasing proportion of the time of the CPM and the field presence staff is spent building and maintaining partnerships.

VII. CONCLUSIONS

Portfolio Management

156. IFAD achieved record high levels of approvals and disbursements in 2005. It also closed a larger number of projects than it has in years past, which helped to stabilize the number of projects in the current portfolio. It pursued an active loan cancellation policy and significantly reduced the proportion of loans cancelled at the closing dates. Furthermore, the amount of cofinancing went up in 2005, particularly from domestic sources. Clearly, the positive outcomes against these performance parameters need to be improved or at least maintained at the current level.

157. Delays in project effectiveness registered some increase in 2005, and this requires greater attention. The more recent trend of ‘portfolio rejuvenation’ persisted in 2005 and is expected to continue in the near future. The portfolio now consists of a younger set of projects. The year under review also saw a clear reduction in average loan sizes, raising the prospect of diseconomies of scale. Because IFAD has a relatively small, but globally dispersed portfolio, the average number of projects per country is low, and this adds to the risk of diseconomies of scale. All these factors and the demand placed by the change management initiative will intensify the competition for resources, particularly staff resources.

158. The implied gains in overall productivity in recent years should therefore be complemented mainly by adjusting operational strategies and processes. In addition, efforts will have to be made to complete projects and close loans on time or with only limited extensions. The wider latitude offered by the amendments made in the Agreement Establishing IFAD and the Lending Policies and Criteria in terms of cooperating arrangements for supervision should be utilized to improve the quality of supervision and implementation support. Given that IFAD is a member-based organization, the issue of the high dispersion of the programme is difficult to address at least in the short term, but this factor needs to be integrated in the development of regional programmes.

Portfolio Impact

159. There is some discrepancy between the ARRI report’s findings and PMD’s self-assessment reports with respect to the criteria and mechanisms for reaching poorer groups. However, there is scope to sharpen IFAD’s approach to targeting during design and implementation. IFAD management is currently working on the targeting policy and strategy for submission to the Executive Board in September 2006. In addition, the new operating model will introduce other elements to enhance the focus on rural poverty through more effective targeting of the poorest rural people. With respect to gender mainstreaming and women’s empowerment, efforts will be made to strengthen the integration of activities under the Gender Plan of Action into ongoing institutional processes and to build capacity among IFAD staff and consultants. Further review will be undertaken to analyse the poverty impact of IFAD projects in low- and middle-income countries.

160. Overall, the lower impact in environmental and natural resource management may be explained more by the relatively low proportion of investments committed in this area than by a lack of understanding of the nexus between poverty and environment on the part of IFAD. IFAD management also realizes that the rights of rural poor people to environmental resources are insecure because of the open access nature of resources, and, for this reason, IFAD has assisted projects

working on sustainable common property resource management in order to allow rural poor people a larger role in the sustainable management of these resources. Initiatives to address the issue of insufficient attention to environmental risk will be implemented on a priority basis.

161. Increasing and making full use of existing social capital in order to empower poor people, particularly by creating and strengthening their organizations and reinforcing the role of communities in decision-making processes, constitute the principal strategy that IFAD pursues in building the local ownership of projects. There is thus a need for further analyses of the 2005 ARRI report findings in this respect, keeping in view the findings of the self-assessments, as well as those of the previous two ARRI reports.

162. For enhancing sustainability, a clearer statement of project objectives, separating these from outputs, will be promoted through the issuance of guidelines and through training. Similarly, efforts will be made to accelerate the shift of the rural finance portfolio from supply-driven credit to rural financial services. Overall, the emphasis on linking poor people with the market is expanding, and this will be maintained. Similarly, policy engagements will be supported by grants and country-specific analytical work and related capacity-building. For a more reliable measurement of efficiency, a significant boost in the sample size is necessary. Revised guidelines for project completion would provide the basis for more analytical work in this regard.

163. IFAD will also seek to align its intervention instruments in the context of specific country requirements and donor harmonization efforts. As partnership-building activities are increasingly being undertaken at the country level, a more decentralized and flexible approach to partnership building will be adopted.

164. In response to the findings of the ARRI and the self-assessment system that operational staff are overstretched both in terms of numbers and skills, the action plan has identified human resource reform as a key part of the change process. This will involve the development of results-oriented staff assessment procedures, staff capacity-development in line with changed competency profiles, workload and structure reviews and realignments, and the development of accountability and incentive frameworks and career progression guidelines.

COMMENTS ON THE PORTFOLIO PERFORMANCE REPORT BY OE

I. INTRODUCTION

1. In line with the new Terms of Reference and Rules of Procedure of the Evaluation Committee of the Executive Board,¹ this annex presents the comments of the Office of Evaluation on IFAD's Portfolio Performance Report (PPR). The Evaluation Committee reviews the PPR in order to inform the Executive Board of the quality of the report submitted by IFAD management and of the responsiveness of IFAD to evaluation findings and recommendations.

2. This is the second year OE is providing comments on the PPR. In 2005, OE's comments focused on: (i) the structure and methodology of the PPR; (ii) the adequacy of the recommendations contained in the PPR; and (iii) the adequacy of the PPR as management's response to the ARRI report, which summarizes the findings of evaluations that OE undertakes in a year. To align OE's inputs to the discussions of the Evaluation Committee and its objectives in reviewing the PPR, this year's comments by OE have been restructured to reflect a dual purpose: quality of reporting and responsiveness to evaluation findings. This revision to the structure of OE's comments has been made possible in light of the structural alignments of the PPR that have been made in the 2006 submission.

3. In preparing these comments, OE defined the criteria through which quality and responsiveness were to be assessed:

- (i) **Quality of reporting:** this would include criteria such as timeliness, accuracy and the identification of concerns with portfolio performance that need to be addressed; and
- (ii) **Responsiveness to evaluation findings:** first, by assessing the response to the self-assessment findings of PMD (linking the identification and analysis of performance issues to remedial actions) and, second, by assessing the response to independent evaluations of OE, notably the recommendations made on the last PPR and management's response to the ARRI report.

II. QUALITY OF REPORTING

A. Timeliness of Reporting

4. **Reporting to the Executive Board.** A report on the performance of the portfolio submitted within four months of the closing of the reporting year is well in line with good practice standards of transparent reporting. The report to the Executive Board is therefore considered timely. This situation compares favourably with other international financial institutions, which generally take about six months to publish PPRs. The time frame of the divisional reports covers the period July 2004-June 2005, while corporate-level portfolio performance data (financial information on approvals, disbursements, etc.) are for the full calendar year 2005.

B. Accuracy of Reporting

5. **Approaches of others.** In other international financial institutions, the accuracy of reported self-assessment data is evaluated through a comparison of ratings given in self-assessments with those given by independent evaluation departments. The difference between self and independent ratings indicates how reliably the self-assessment system is functioning. At the World Bank, this comparison is referred to as the "net disconnect". In addition, the evaluation departments of some international financial institutions (notably the World Bank and the Asian Development Bank) undertake assessments of the quality of project completion reports. In the future, PMD and OE aspire to achieve a similar harmonization of systems, as explained in the next paragraph.

¹ Document EB 2004/83/R.7/Rev.1.

6. **Current reporting.** The current PPR does not provide definitions of indicators and rating systems, although the rating system is explained in the PPR guidelines. It also does not provide self-evaluation assessments and performance ratings for all indicators. Instead, the PPR uses OE evaluation ratings and ARRI report findings almost more often as self-evaluation ratings. PMD did not present a comparative analysis of performance data from self- and independent assessment systems, because of a yet to be attained harmonization of the systems.

7. **Harmonization of self-assessment and independent evaluation systems.** The Assistant President of PMD and the director of OE have agreed that work will commence in 2006 to harmonize the systems and they have signed a formal understanding to this effect. The harmonization will be undertaken in such a way that data can be compared as a congruency check to generate feedback on the net disconnect and therefore on the accuracy of self-evaluation data.

C. Issues and Concerns

8. The quality of the PPR continued to improve in so far as the level of aggregation and analysis has increased, while not losing detail and the narration of examples that illustrate reported issues. The background and explanations of performance shortfalls in some areas, such as targeting, are useful in explaining the issues IFAD is tackling, even when solutions have not yet been found and the PPR itself recognizes the urgent need for improvement.

9. To determine how well the PPR functions as a management tool (i.e. identifying issues and flagging them for remedial actions), OE differentiated between issues where: (i) data were presented, but additional analysis was required to flag potential problems; (ii) trends or problems were reported, but not sufficiently explained; and (iii) data are missing that should have been presented. In general, the first two weaknesses apply more to portfolio performance data such as approval and disbursement figures (often called traditional portfolio performance data). However, the reporting of self-evaluation data on impact is rather limited, and, therefore, additional data need to be generated before probing into reported performance; thus, most questions on impact fall under (iii) above. The following examples illustrate areas where the Portfolio Performance Management System could be improved.

- (i) **Additional analysis.** The PPR reports a considerable increase in domestic cofinance and explains this by the larger and more diversified sources of cofinancing that IFAD is tapping. Questions that are not raised, but should have been, are whether this is a deliberate IFAD policy and how this shift affects the value added by IFAD to Member States that may expect additional funding from outside sources rather than from domestic sources. Without such analysis, it may be difficult for IFAD management to take policy decisions and corrective actions, if these are deemed necessary.
- (ii) **Additional explanations.** Improvements in disbursement have been reported, but without explaining what has contributed to these changes and what can be learned from them. Going deeper into the analysis and explanation may generate opportunities for IFAD to learn more and use positive experiences from one region in other regions.
- (iii) **Additional data.** The PPR contains details on IFAD's cooperating institutions, namely, "the who", but not how they are performing. Given that the performance of IFAD-supported projects often depends on the performance of the cooperating institutions, it is essential that IFAD monitor performance, provide regular feedback and take corrective action when necessary. Such a cooperating institution management system is even more necessary given that IFAD depends for about 70% of its portfolio on one cooperating institution.²

² It is noteworthy, however, that the project status report system reports on the performance of the cooperating institutions, and OE understands that the internal PMD review uses this information.

III. RESPONSIVENESS TO EVALUATION FINDINGS AND RECOMMENDATIONS

A. Timeliness of Remedial Actions Taken

10. The PPR falls short of sufficiently documenting the corrective actions taken, and OE therefore recommends that future PPRs provide information on the issues identified and addressed during the Portfolio Performance Management System Process.

B. Management Response to the ARRI Report

11. The PPR provides a welcome and detailed management response to the ARRI report immediately in the beginning of and throughout the report. In this respect, the PPR responds to the report as a whole rather than only to its conclusions and recommendations. This structure and level of discussion illustrate that IFAD management has taken the ARRI report and its response to it seriously.

- (i) **Targeting.** The ARRI report suggested that IFAD adopt a clear policy position on its target groups. The PPR reports that such a policy position will be submitted to the Executive Board in September 2006.
- (ii) **Ownership.** The ARRI report found that IFAD needs to rethink the range of its services and its own engagement in delivering these in order to ensure more effective ownership on the part of governments and communities in partner countries. The PPR refers to the ongoing work as part of the action plan, which does not provide sufficient detail to determine the extent to which the ARRI report recommendation will be taken on board.
- (iii) **Partnerships.** The ARRI report proposed that weaknesses in the partnership arrangements be addressed by stating clearly the criteria to be used to identify potential partners, the process for doing so, the roles and responsibilities of IFAD and those expected from partners, and the mechanisms for managing partnerships effectively. The guidelines that would provide the necessary details are to be developed as part of the action plan. At this stage, OE cannot confirm the extent to which the recommendation has been addressed.
- (iv) **Diversified approach in middle-income countries.** The ARRI report suggested that IFAD undertake an analysis into the reasons for the relatively poorer performance of IFAD-supported projects in middle-income countries. The PPR indicates that management will take up this suggestion.

C. Responsiveness to Comments on the Previous PPR

12. OE made specific recommendations on the structure and content of the PPR presented in 2005. Consequently, the current PPR responds to some of these recommendations, most notably: (i) introducing a clear alignment between OE's impact domains and those used for reporting in the PPR; (ii) the presentation of trend data in the form of charts and tables; (iii) reducing the amount of anecdotal evidence and highlighting outlier performance; and (iv) presenting a final chapter with conclusions and management decisions.

13. Other OE recommendations have not been fully implemented, such as: (i) making greater use of project completion reports, which PMD explained was due to weaknesses in the guidelines for and quality of these reports;³ (ii) comparing performance ratings, which has not been done, as explained above (paragraphs 6 and 7); and (iii) explaining outlier performance, which has been done only to a limited extent (paragraph 9).

³ New project completion report guidelines are being prepared and will be issued in 2006.

IV. CONCLUSIONS

14. OE concludes that the quality of the PPR continues to improve and is becoming a more effective management tool. It now needs to evolve into a portfolio management system, whereby reported problems are resolved at appropriate levels and remedial actions are captured in the report to the Executive Board as well.

15. OE recommends that PMD:

- (i) follow through on the commitment to harmonize the self-assessment and independent evaluation systems, which, over time, will allow more reporting of self-evaluation data, a comparison of ratings and a verification of the quality of the self-assessment system; and
- (ii) provide, in future PPRs, additional analyses and explanations of key concerns.

PSR AGGREGATED RATINGS FOR 2002-2005
(percentage)

	Ratings for 2002					Ratings for 2003					Ratings for 2004					Ratings for 2005				
	1	2	3	4		1	2	3	4		1	2	3	4		1	2	3	4	
A. Implementation Progress																				
Compliance with loan covenants	59	33	6	1	1.46	50	40	9	1	1.57	44	49	5	2	1.62	41	51	6	2	1.65
Availability of counterpart funds	60	28	9	3	1.48	51	42	5	1	1.53	54	35	9	1	1.55	49	38	12	2	1.63
Compliance with procurement procedures	62	33	4	0	1.42	55	39	6	0	1.51	50	44	6	0	1.56	45	48	7	1	1.62
Acceptable disbursement rate					0.00	36	38	20	6	1.78	37	41	20	3	1.83	30	41	24	5	1.93
Achievement of physical targets	30	50	17	3	1.85	26	52	18	5	1.87	29	48	20	2	1.91	28	47	24	2	1.96
Technical assistance progress	42	46	12	1	1.70	36	49	15	0	1.79	26	58	13	3	1.86	23	64	10	3	1.87
Performance of monitoring and evaluation system	20	52	25	4	2.03	21	54	23	2	2.00	21	50	27	2	2.06	16	66	17	1	2.01
Timeliness of reporting	47	44	8	0	1.61	41	49	9	1	1.67	37	50	12	1	1.75	37	51	11	1	1.75
Coherence of the Annual Workplan and Budget and implementation	40	48	10	2	1.69	33	53	13	3	1.77	29	57	11	2	1.82	21	65	13	1	1.92
Timeliness of audit	51	38	9	1	1.57	39	46	11	4	1.68	36	49	13	2	1.77	34	52	11	3	1.77
Quality of accounts	54	38	6	2	1.51	46	47	5	2	1.58	39	52	8	0	1.70	35	59	6	1	1.72
Project management performance	39	48	12	1	1.73	36	49	14	1	1.76	31	52	15	2	1.84	30	58	11	1	1.81
Service providers						21	68	10	1	1.87	23	65	12	0	1.89	15	76	9		1.94
CPM assessment of project implementation performance	15	61	23	1	2.07	17	58	20	6	1.97	16	70	12	2	1.96	15	68	16	1	2.01
B. Impact																				
Expected benefits	30	61	8	1	1.77	28	55	15	1	1.85	29	57	13	2	1.84	26	54	18	2	1.92
Beneficiary participation	40	50	9	1	1.68	38	52	10	1	1.72	34	58	8	0	1.75	33	61	6	1	1.73
Institution building	36	50	12	2	1.74	33	54	11	2	1.76	31	57	11	1	1.80	31	58	10	1	1.79
Poverty focus in implementation						34	58	7	1	1.73	37	55	8	1	1.71	30	66	4		1.73
CPM assessment of progress in meeting development objectives	13	61	25	1	2.11	16	63	16	4	1.96	19	66	14	1	1.95	17	65	17	2	2.00
C. Gender Equality and Women's Empowerment																				
Gender focus in implementation						24	60	16	1	1.91	28	58	14	1	1.86	23	65	12		1.89
Women participate equitably in project						26	58	16	1	1.89	25	62	12	1	1.87	32	58	10		1.79
Women benefit equitably from project						30	52	18	1	1.87	26	61	12	1	1.86	32	60	9		1.77
Women participate in decision-making bodies						21	48	27	4	2.02	17	54	27	3	2.09	21	56	22	1	2.02
Targets for women's participation in activities met						32	50	14	4	1.79	28	58	13	2	1.85	32	56	11	1	1.79
Policy dialogue undertaken						28	40	24	8	1.88	20	47	26	7	2.05	25	54	18	4	1.93
Project management unit monitors gender-differentiated participation						38	40	19	3	1.78	26	54	16	4	1.90	31	59	10		1.79
Supervision reports on gender-differentiated participation						22	48	24	6	1.96	17	59	17	6	1.99	25	57	15	3	1.90
CPM assessment of performance in gender equality and women's empowerment						18	63	16	3	1.95	18	64	17	2	1.99	26	62	12		1.85

Rating guide: 1 = above or on target, 2 = mostly on target, 3 = substantially below target, 4 = little or no progress.

PROJECTS DIRECTLY SUPERVISED BY IFAD

Region	Country	Project Name	Lending Terms	Project Type	Board Approval	Loan Signing	Loan Effectiveness	Project Completion	Disbursed (% approved amount)
PA	Benin	Microfinance and Marketing Project	HC	Credit and financial services	22 Apr 98	03 Jul 98	04 May 99	30 Jun 06	98
PA	Gambia	Rural Finance and Community Initiatives Project	HC	Credit and financial services	02 Dec 98	18 Feb 99	14 Jul 99	30 Jun 06	87
PA	Mali	Sahelian Areas Development Fund Programme	HC	Rural development	02 Dec 98	19 Feb 99	14 Oct 99	31 Mar 09	52
PF	Uganda	District Development Support Programme	HC	Rural development	10 Sep 98	11 Feb 00	24 May 00	30 Jun 06	93
PF	Zambia	Smallholder Enterprise and Marketing Programme	HC	Rural development	09 Dec 99	16 Feb 00	07 Nov 00	31 Dec 07	59
PF	Zimbabwe	Smallholder Irrigation Support Programme	HC	Irrigation	02 Dec 98	17 Feb 99	14 Sep 99	31 Dec 05	10
PI	Bangladesh	Agricultural Diversification and Intensification Project	HC	Agricultural development	29 Apr 97	29 May 97	04 Dec 97	30 Jun 04	90
PI	India	Jharkhand-Chattisgarh Tribal Development Programme	HC	Rural development	29 Apr 99	13 Mar 01	21 Jun 01	30 Jun 09	41
PI	Indonesia	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas	HC	Rural development	04 May 00	21 Jun 00	31 Jan 01	31 Mar 09	9
PL	Brazil	Sustainable Development Project for Agrarian Reform Settlements in the Semi-Arid North-East	O	Credit and financial services	03 Dec 98	10 Oct 00	21 Dec 00	31 Dec 06	29
PL	Dominican Republic	South Western Region Small Farmers Project – Phase II	I	Rural development	03 Dec 98	19 Jan 99	05 Apr 00	30 Jun 06	74
PL	Peru	Development of the Puno-Cusco Corridor Project	O	Research/extension/training	04 Dec 97	07 Dec 99	17 Oct 00	31 Dec 06	56
PN	Armenia	North-West Agricultural Services Project	HC	Agricultural development	04 Dec 97	05 Dec 97	14 Apr 98	31 Jul 01	100
PN	Gaza and the West Bank	Participatory Natural Resource Management Programme	HC	Rural development	23 Apr 98	07 May 98	01 Feb 00	31 Mar 07	30
PN	Sudan	North Kordofan Rural Development Project	HC	Rural development	28 Apr 99	14 Jul 99	14 Jun 00	30 Jul 08	83

Note: PA = Africa I (Western and Central Africa)
 HC = Highly concessional PF = Africa II (Eastern and Southern Africa)
 I = Intermediate PI = Asia and the Pacific
 O = Ordinary PL = Latin America and the Caribbean
 PN = Near East and North Africa

PROJECTS UNDER THE FLEXIBLE LENDING MECHANISM

Division	Country	Project Name	Board Approval	Loan Effectiveness	Project Completion Date	Estimated Implementation (years)	No. of Phases	Estimated Phase II Begins	Current Phase	Disbursed (%)
PA	Cape Verde	Rural Poverty Alleviation Programme	08 Sep 99	14 Jul 00	30 Sep 09	9	3 (3-3-3)	2004	2nd	40
PA	Guinea	Programme for Participatory Rural Development in Haute-Guinée	09 Dec 99	18 Jan 01	31 Mar 11	10	3 (3-4-3)	2006	1st	17
PA	Mali	Sahelian Areas Development Fund Programme	02 Dec 98	14 Oct 99	31 Mar 09	10	3 (3-4-3)	2003	2nd	53
PA	Niger	Rural Financial Services Development Programme	03 May 00	08 Jun 01	30 Jun 11	10	3 (4-3-3)	2006	1st	24
PA	Sao Tome and Principe	Participatory Smallholder Agriculture and Artisanal Fisheries Development Programme	26 Apr 01	25 Feb 03	31 Mar 15	12	4 (3-3-3-3)	2006	1st	15
PF	Malawi	Rural Livelihoods Support Programme	12 Sep 01	30 Aug 04	30 Sep 13	9	3 (3-3-3)	2008	1st	14
PF	Rwanda	Umutara Community Resource and Infrastructure Development Project	04 May 00	05 Dec 00	31 Dec 10	10	3 (3-4-3)	2004	2nd	56
PF	Tanzania	Rural Financial Services Programme	07 Dec 00	12 Oct 01	31 Dec 10	9	3 (3-3-3)	2005	2nd	37
PI	Bangladesh	Sunamganj Community-Based Resource Management Project	12 Sep 01	14 Jan 03	31 Mar 14	11	3 (5-3-3)	2008	1st	10
PI	India	National Microfinance Support Programme	04 May 00	01 Apr 02	30 Jun 09	7	2 (3-4)	2006	1st	35
PI	India	Orissa Tribal Empowerment and Livelihoods Programme	23 Apr 02	15 Jul 03	31 Mar 13	10	3 (3-4-3)	2007	1st	4
PI	Indonesia	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas	04 May 00	31 Jan 01	31 Mar 09	8	2 (4-4)	2005	2nd	41
PI	Indonesia	East Kalimantan Local Communities Empowerment Programme	11 Dec 02	06 May 05	30 Jun 17	12	4 (3-3-3-3)	2009	1st	0
PI	Nepal	Western Uplands Poverty Alleviation Project	06 Dec 01	01 Jan 03	31 Mar 14	11	3 (4-4-3)	2007	1st	7
PL	Guatemala	Rural Development Programme for Las Verapaces	08 Dec 99	06 Sep 01	30 Sep 11	10	3 (4-4-2)	2007	1st	29
PL	Haiti	Productive Initiatives Support Programme in Rural Areas	23 Apr 02	20 Dec 02	31 Dec 12	10	3 (3-4-3)	2006	1st	7
PL	Nicaragua	Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	09 Dec 99	20 Jun 01	30 Jun 13	12	4 (4-4-4)	2005	2nd	15
PN	Sudan	South Kordofan Rural Development Programme	14 Sep 00	12 Feb 01	31 Mar 11	10	2 (5-5)	2005	2nd	54

Note: The Second Eastern Zone Agricultural Programme in Bhutan was transformed in 2003 to a non-FLM loan.
The Cooperative Rural Finance Programme in Lebanon was cancelled in 2004.