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Enabling poor rural people
to overcome poverty

Response of IFAD Management to the Annual Report on Results and Impact of IFAD Operations evaluated in 2012

Note to Evaluation Committee members

Changes with respect to EC 2013/81/W.P.3/Add.1 are shown in boldface and
strikethrough

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Evaluation Committee — Eighty-first Session
Rome, 29 November 2013

For: Review

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Note to Executive Board representatives

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Executive Board — 110th Session
Rome, 10-12 December 2013

For: Review

Response of IFAD Management to the Annual Report on Results and Impact of IFAD Operations evaluated in 2012

A. Introduction

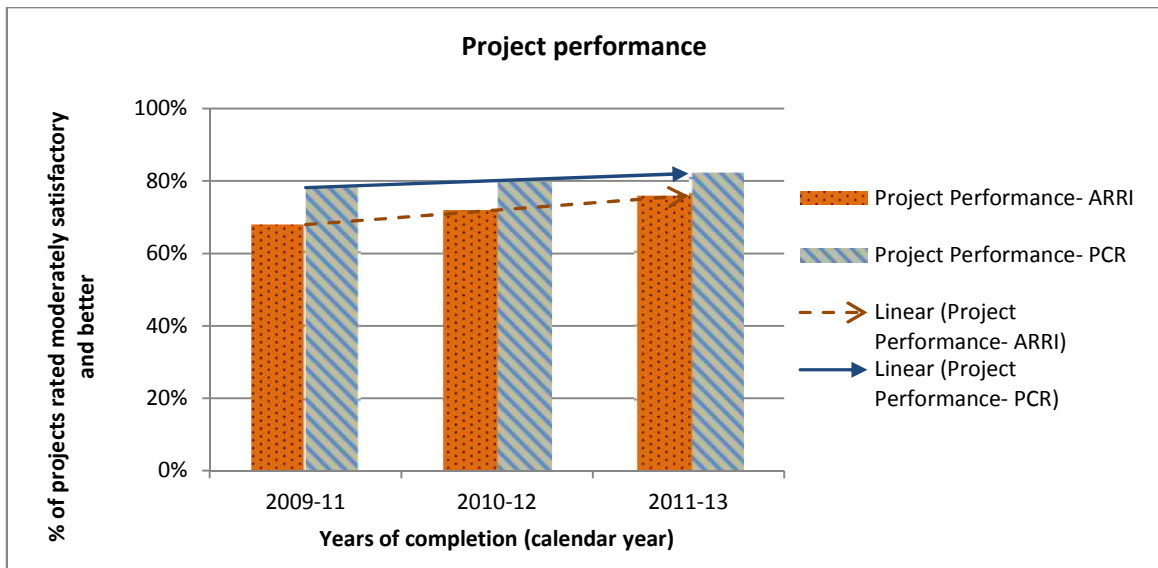
1. This document presents Management's written response to the Annual Report on Results and Impact of IFAD Operations (ARRI) evaluated in 2012. This is in line with the decisions taken by the Executive Board in September 2004 and reiterated in the revised Evaluation Policy (document EB/2011/102/R.7/Rev.1, paragraph 54).
2. IFAD Management takes this opportunity to thank the Independent Office of Evaluation of IFAD (IOE) for continuing the past practice of sharing the draft ARRI for Management's comments and addressing most of its comments on the draft report in finalizing the ARRI.

B. Methodological improvements

3. In responding to last year's ARRI, IFAD Management had stated that "... the projects comprising any given year's ARRI sample are not a true 'cohort' [since] they have significantly different statistical characteristics (e.g. in terms of entry and completion dates) and thus are not representative ..." (document EB 2012/107/R.7/Add.1, paragraph 3). Management is pleased to note that IOE has changed the data aggregation methodology in this year's ARRI in line with this comment, and evaluation data are now aggregated by year of approval as well as year of completion (**paragraph 7 8**).
4. IFAD Management also welcomes the statement in this year's report that the ARRI has suffered from the drawback of mixing different types of evaluations and that some projects rated in the country programme evaluations (CPEs) are of relatively old vintage (**paragraph 8 9**). Combined with the relatively small and non-random sample that the ARRI relied upon, especially in the early years, this limitation makes time-series data less reliable and perhaps not representative of portfolio performance. In this light, IFAD Management takes note of IOE's proposal to introduce a new data series based on project completion report validations/ project performance assessments only, which should also overcome problems owing to different types of evaluations, undertaken with varying levels of rigour. The results obtained from self-evaluation, especially those generated by project completion reports (PCRs), readily respond to such a change.

C. Performance trends

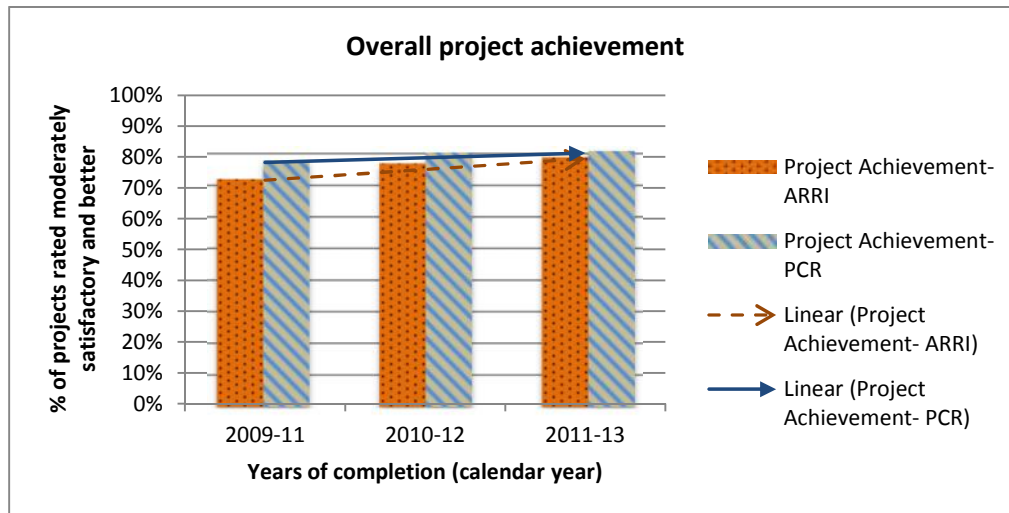
5. IFAD Management welcomes IOE's approach this year of analysing performance trends over a longer run, as well as more recent trends. With respect to the upward trend in project performance noted in the ARRI, consisting of relevance, effectiveness and efficiency, in projects completed during 2009-2011 and thereafter, IFAD Management would like to confirm that the self-evaluation system shows a slightly better performance than the ARRI, but shows a similarly improving trend. This is depicted in the following chart:



6. On the economic efficiency of the projects, as well as the likelihood of sustainability of benefits in the post-project phase, while the self-evaluation system also reckons these as the two weakest areas of performance, it reports higher and gradually improving performance (see charts in annex 1). Nevertheless, these are identified also by IFAD Management as areas that need significant improvement.
7. In view of the relatively low performance observed in project efficiency, this year's review of IFAD's global portfolio undertook some in-depth analyses of projects with low economic efficiency and identified the following as key factors: (i) complex project design; (ii) inappropriate implementation arrangements and weak implementation capacities; (iii) great delay in effectiveness; (iv) in-country institutional, political and economic instability; (v) slow and cumbersome administrative procedures; (vi) budgetary restrictions and insufficient counterpart funding; and (vii) frequent changes in project management personnel.
8. This year's portfolio review also made efforts to identify major causal factors in the low sustainability of project interventions. These were: (i) lack of follow-up, both during project implementation and focusing on post-project sustainability; (ii) lack of an effective exit strategy; (iii) lack of longer-term support to project organizations; (iv) lack of adequate budgetary resources to ensure proper operation, maintenance and upkeep of the equipment, facilities and infrastructure procured/rehabilitated during project implementation; (v) lack of capacity of government entities to sustain project achievements after project closure; and (vi) lack of adequate organizational strengthening and capacity-building.
9. While some of the above-mentioned factors are beyond the immediate influence of IFAD – such as weak institutional capacity, especially in the context of countries in fragile situations – other factors such as design complexity, better implementation readiness at approval, more attention to exit strategy at project design stage, adequate capacity-building of grass-roots and governmental capacity are more amenable to IFAD's influence. IFAD Management has modified its design process, which now focuses more on quality enhancement through increased technical advisory support during project design and supervision. It has also significantly sharpened its focus on scaling up of IFAD's successful interventions. The latter will not only improve sustainability, but can contribute to improvement in the economic efficiency of IFAD-supported programmes.
10. It is also worthwhile mentioning that the economic rate of return of most IFAD-supported projects is likely to be compromised to a certain extent by IFAD's mandate to serve a resource-poor clientele, usually residing in remote areas with

weak or non-existent infrastructure. IFAD often confronts a difficult trade-off between efficiency and reaching the poor and most vulnerable – and striking a delicate balance between the two. Management noted that IOE recognized this tension between efficiency and reaching the poorest in the Plurinational State of Bolivia and Nepal CPEs (**paragraph 38 39**). The phenomenon, however, is far more widespread.

11. As noted in the ARRI, there have been improvements in performance in most other impact areas in recent years, including IFAD’s own performance. As a result, performance against project achievement – which is the broadest measure of performance in IFAD’s harmonized system of independent and self-evaluation – has also improved. This is depicted in the following chart:



12. In interpreting the above results, it is important to note that the latest set of 22 projects included in the analyses in this year’s ARRI were approved during 2004-2006. The remaining projects were approved in even earlier years (2012 ARRI, annex VI, page 32). This implies that even projects in the 2012 ARRI samples and the universe of PCRs included in the self-evaluation in later years did not benefit fully from the changes introduced in IFAD’s operating model, since most of the changes took place only after 2006. For example, changes in COSOPs and projects were introduced in 2007; direct supervision became widely applied only in 2009; and IFAD country offices were not resourced significantly until 2010. As this year’s ARRI has noted, project design matters, especially when it has a poor fit with the context.

D. Country programme evaluation

13. While IFAD Management values CPEs as an evaluation output that contributes positively to the design and implementation of country strategy and programmes, it considers the inclusion of the performance rating of non-lending activities in the ARRI of dubious value for the following reasons:
- (a) The CPEs included in the latest cohort (2011-2013) include a substantial number of projects that were either designed over a dozen or more years ago or are ongoing and thus it is not easy to predict likely final results. For example, 37 per cent of the projects included in this year’s ARRI were designed from 1993 to 2000 and another 45 per cent before 2006, when IFAD committed itself to changing its business model (annex II). Similarly, 42 per cent of the projects included in the CPEs are closing in 2013 or later, making impact assessment difficult and in some cases impossible.

- (b) Since individual CPEs cover a rather long period, these have to necessarily rely on memory recall for performance assessments of projects implemented in the distant past, making assessment relatively unreliable.
 - (c) Since IOE can undertake only a limited number of CPEs, the sample size is always small. Moreover, it is highly heterogeneous and essentially unrepresentative of IFAD's portfolio.
14. In view of the above-mentioned limitations of CPEs, in preparing the ARRI in future, IOE may consider distilling the lessons learned from CPEs in qualitative terms only, and may limit the use of CPE ratings to making informed judgements with respect to the performance of the country strategy and portfolio. As IOE is now reviewing the total universe of PCRs, there will be a sufficient number of validated PCRs over time to allow IOE to judge aggregate performance in a way that is methodologically sound.

E. Benchmarking

15. Benchmarking performance across institutions is not easy; available data, as noted in the ARRI, are not perfectly comparable. While this is true and should be considered in interpreting the data presented in the ARRI, IFAD Management believes that external benchmarking is a useful exercise, and in this light welcomes the analyses done in the ARRI. It takes note of the finding that IFAD's global portfolio performance is generally on a par with World Bank agriculture sector operations, its African operations similar to those of the African Development Bank, and its Asian operations better than those of the Asian Development Bank.

F. Issues identified in 2012 evaluations

16. IFAD Management takes note of the findings of the evaluation undertaken in 2012, including the tension noted in the Plurinational State of Bolivia and Nepal between efficiency in delivering results and reaching the poorest. While it is in agreement with most of the issues flagged, with respect to thematic and geographic selectivity it wishes to reiterate its position on selectivity as presented in the Action Plan for Improving IFAD's Efficiency (EB 2013/109/R.12). In addition, Management would like to see the CPE findings on grants and their implications (**paragraph 39 40**) duly endorsed or otherwise by the ongoing corporate-level evaluation (CLE) on grants policy and would use these findings to reorient the grants strategy.
17. IFAD Management, to an extent, agrees that non-lending activities are "not matched by budgets". It is important to note, however, that remaining within the overall budgetary resource envelope, it has made efforts to allocate more resources to activities such as global partnership-building and country-level policy dialogue. The finding of persistent weakness in monitoring and evaluation (M&E) is supported by self-evaluations, and, as noted in the ARRI, efforts to support and improve M&E are in progress.

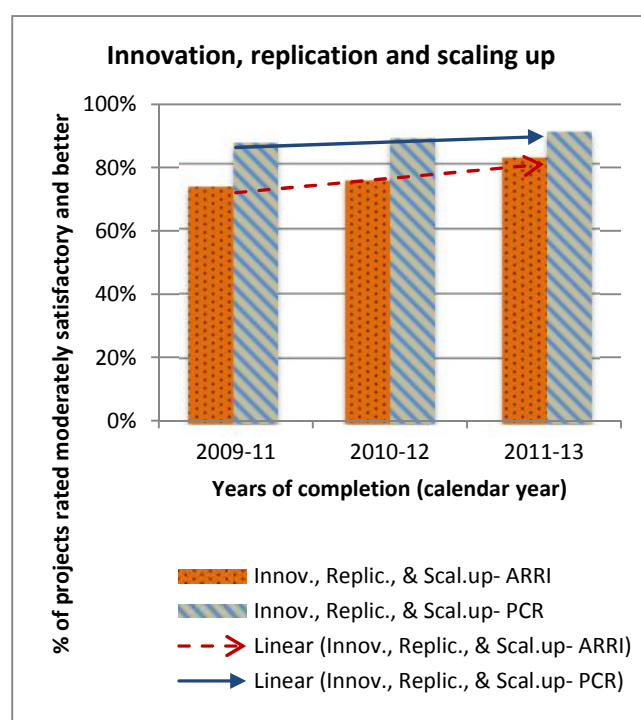
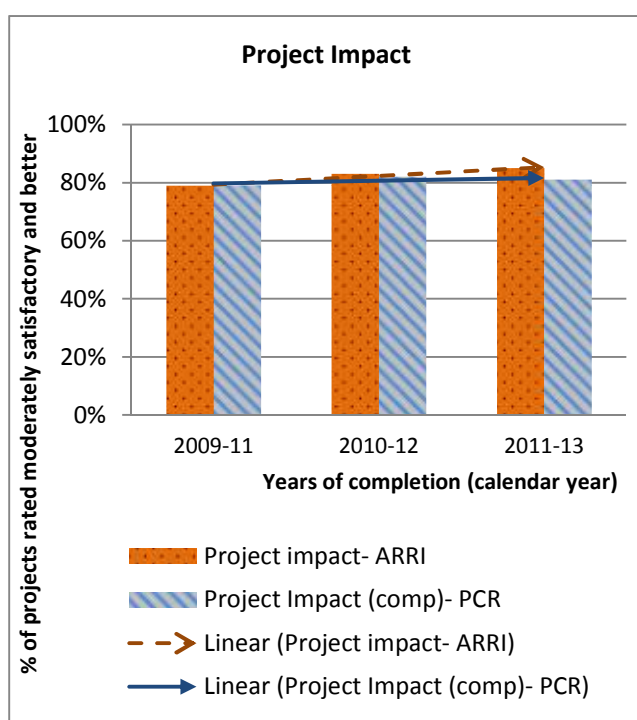
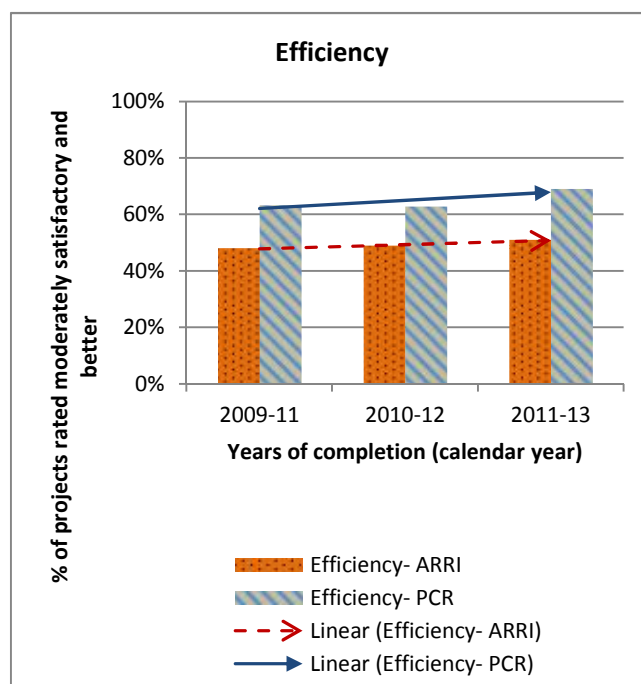
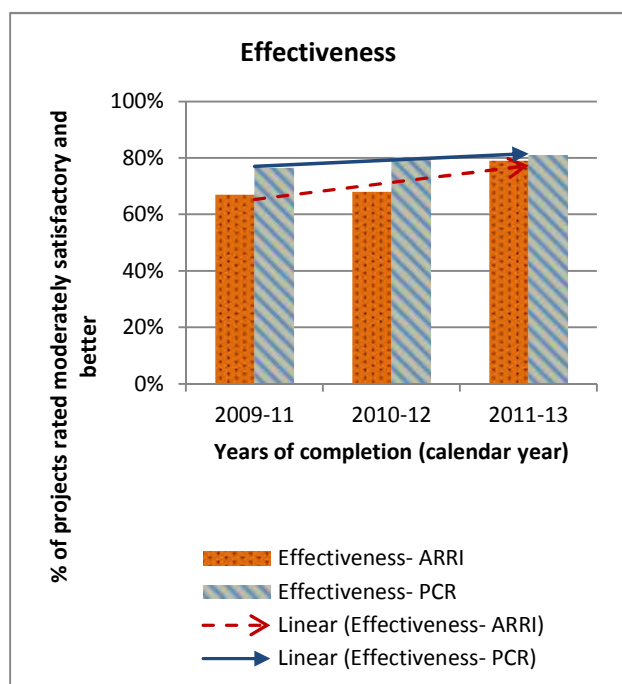
G. Learning theme

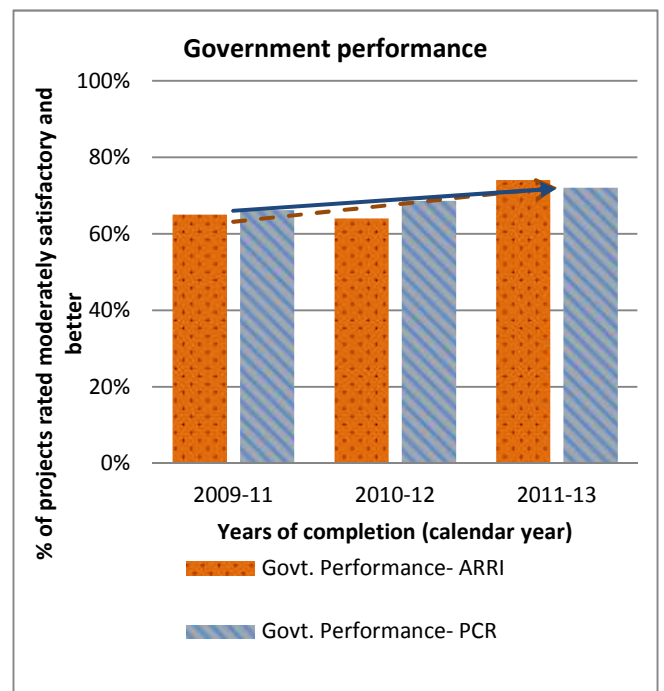
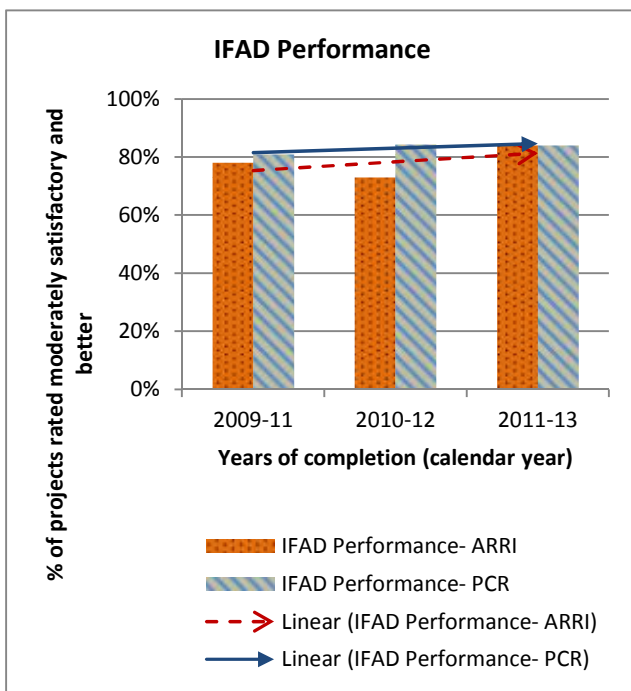
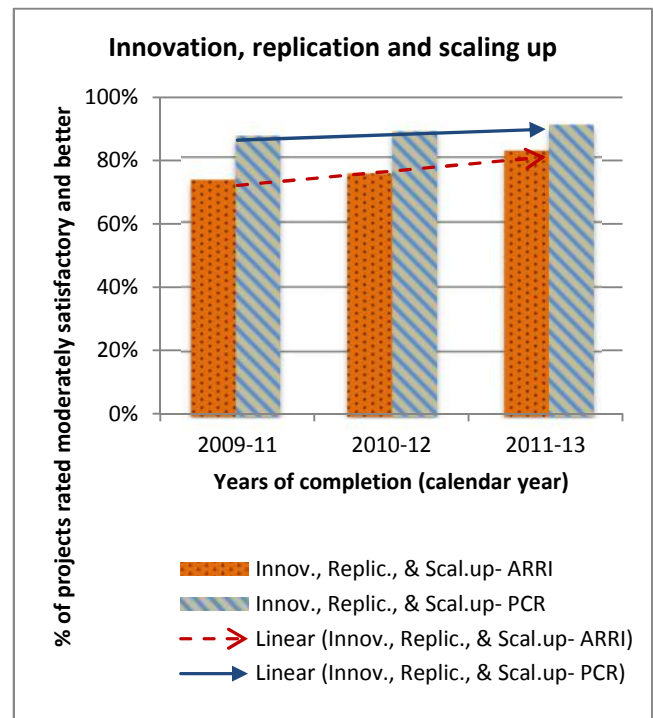
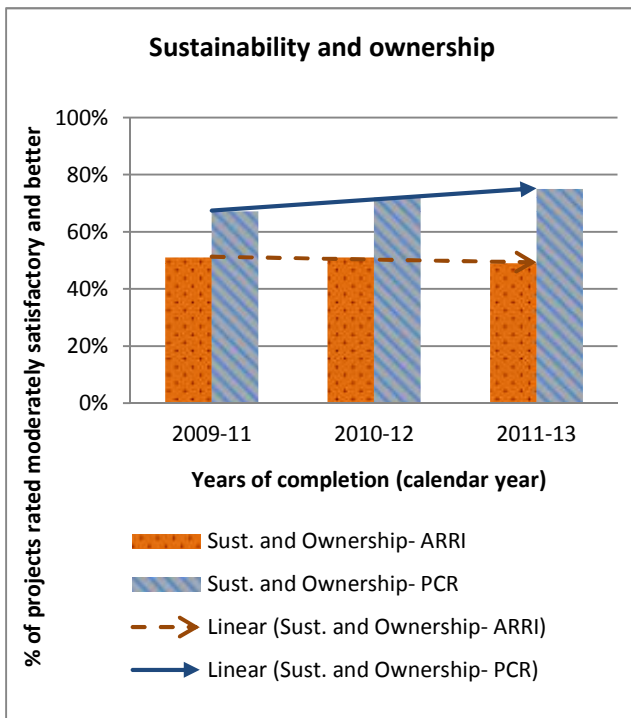
18. IFAD Management has taken note of the findings presented on exceptional projects and has found the lessons learned from IFAD-funded projects in fragile and/or conflict-affected states (FCSs) useful. This is an important issue, and this year's Annual Review of Portfolio Performance has undertaken a detailed assessment of the performance differential between projects operating in fragile and non-fragile situations. This assessment shows not only a significant difference in performance between these two categories of projects, but also a lack of improvement in the performance of projects operating in fragile situations, despite significant portfolio-wide performance improvement in recent years. In this light, IFAD Management welcomes the proposed evaluation of FCSs. While undertaking this evaluation, it is important, however, that IOE develop a scheme for robust categorization between FCSs and middle-income countries, since these categories are not mutually exclusive and nearly half the FCSs are also middle-income countries.

H. Conclusions and recommendations

19. IFAD Management broadly agrees with the conclusions of ARRI 2012: clear improvement in IFAD's performance as a partner and the positive and improving impact it has had on rural poverty; a discernible upward trend in performance since 2009-2011 in a number of performance criteria; significant IFAD contributions to gender equality and women's empowerment; and IFAD performance on a par with World Bank agricultural operations globally, similar to the African Development Bank in Africa, and better than the Asian Development Bank in Asia and the Pacific. Management's self-assessment, while showing some differences in performance levels, concurs with the IOE finding that, in relative terms, project efficiency and sustainability are areas of weak performance. Along with M&E and some aspects of project design, these are indeed persistent challenges. However, the rationale for IOE's conclusion on the need for a "step-change" (**paragraph 69 70(i)**) is less clear.
20. IFAD Management broadly endorses the four recommendations made in this year's ARRI: the planned CLE for FCSs; a 2014 learning theme on the role of government; the proposed CLE on project management; and that the Report on IFAD's Development Effectiveness and the Annual Review of Portfolio Performance pay attention to persistent challenges identified in this and previous ARRIs. Regarding the CLE on project management, IFAD Management would like to underscore that the approach paper for this evaluation should recognize the pivotal role governments play in determining the quality of project management.

Comparison of performance as reported by the ARRI and PCRs





Entry and completion cohort for projects covered in CPEs in the ARRI 2011-2013

| ARRI | 2011 | 2012 | 2013 |
|----------|------|------|------|
| Projects | 20 | 8 | 17 |

Board approval

| Year project approved | ARRI 2011 | | ARRI 2012 | | ARRI 2013 | | ARRI (3-year cohort) | |
|-----------------------|-----------|------------|-----------|------------|-----------|------------|----------------------|------------|
| | No. | % | No. | % | No. | % | No. | % |
| 1993 | 1 | 5 | | 0 | | 0 | 1 | 2 |
| 1994 | | 0 | | 0 | | 0 | 0 | 0 |
| 1995 | | 0 | 1 | 13 | | 0 | 1 | 2 |
| 1996 | | 0 | | 0 | | 0 | 0 | 0 |
| 1997 | 1 | 5 | 1 | 13 | 3 | 18 | 5 | 11 |
| 1998 | | 0 | | 0 | 1 | 6 | 1 | 2 |
| 1999 | 2 | 10 | 1 | 13 | | 0 | 3 | 7 |
| 2000 | 3 | 15 | 1 | 13 | 2 | 12 | 6 | 13 |
| 2001 | 3 | 15 | | 0 | 1 | 6 | 4 | 9 |
| 2002 | 2 | 10 | 1 | 13 | | 0 | 3 | 7 |
| 2003 | 2 | 10 | | 0 | 1 | 6 | 3 | 7 |
| 2004 | 2 | 10 | 1 | 13 | 3 | 18 | 6 | 13 |
| 2005 | 3 | 15 | | 0 | 1 | 6 | 4 | 9 |
| 2006 | 1 | 5 | 1 | 13 | 2 | 12 | 4 | 9 |
| 2007 | | 0 | 1 | 13 | 2 | 12 | 3 | 7 |
| 2008 | | 0 | | 0 | 1 | 6 | 1 | 2 |
| Total | 20 | 100 | 8 | 100 | 17 | 100 | 45 | 100 |

Project completion

| Year project completed/ to be completed | ARRI 2011 | | ARRI 2012 | | ARRI 2013 | | ARRI (3- year cohort) | |
|---|-----------|------------|-----------|------------|-----------|------------|-----------------------|------------|
| | No. | % | No. | % | No. | % | No. | % |
| 2003 | | 0 | 1 | 13 | | 0 | 1 | 2 |
| 2004 | | 0 | | 0 | 1 | 6 | 1 | 2 |
| 2005 | 2 | 10 | 1 | 13 | 1 | 6 | 4 | 9 |
| 2006 | | 0 | | 0 | 1 | 6 | 1 | 2 |
| 2007 | 2 | 10 | | 0 | | 0 | 2 | 4 |
| 2008 | 1 | 5 | 1 | 13 | 1 | 6 | 3 | 7 |
| 2009 | 2 | 10 | | 0 | 1 | 6 | 3 | 7 |
| 2010 | 1 | 5 | 1 | 13 | | 0 | 2 | 4 |
| 2011 | 7 | 35 | | 0 | | 0 | 7 | 16 |
| 2012 | 2 | 10 | | 0 | | 0 | 2 | 4 |
| 2013 | 1 | 5 | 2 | 25 | 4 | 24 | 7 | 16 |
| 2014 | 2 | 10 | 1 | 13 | 5 | 29 | 8 | 18 |
| 2015 | | 0 | 1 | 13 | 1 | 6 | 2 | 4 |
| 2016 | | 0 | | 0 | 2 | 12 | 2 | 4 |
| Total | 20 | 100 | 8 | 100 | 17 | 100 | 45 | 100 |