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Investing in rural people

Response of IFAD Management to the Annual Report on Results and Impact of IFAD Operations evaluated in 2013

Note to Evaluation Committee members

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Response of IFAD Management to the Annual Report on Results and Impact of IFAD Operations evaluated in 2013

A. Introduction

1. This document presents Management's response to the Annual Report on Results and Impact of IFAD Operations (ARRI) evaluated in 2013. This is in line with the decision taken by the Executive Board in September 2004 and reiterated in the revised Evaluation Policy (EB/2011/102/R.7/Rev.1, para. 54).
2. IFAD Management thanks the Independent Office of Evaluation of IFAD (IOE) for continuing with the past practice of sharing the draft ARRI for Management's comments and addressing many of these comments in finalizing the ARRI.

B. Performance trends

3. IFAD Management is pleased with IOE's recognition of the clear improvements shown since the 2002 ARRI with regard to IFAD's performance on partnership, sustainability and rural poverty impact. Rural poverty impact is the evaluation indicator that gauges the extent to which IFAD projects have had a positive influence on the lives of rural poor people. These findings clearly reflect the efforts that IFAD has made to focus on results.¹ Management agrees with IOE that the introduction of direct supervision and establishment of country offices have indeed yielded substantial improvements in project performance.
4. With respect to those indicators that have remained essentially unchanged since 2002 (relevance, innovation and scaling up, and gender), Management wishes to point out that according to the ARRI, performance has been "consistently high: 92 per cent" (relevance) and "consistently good ... close to 90 per cent (gender)." With respect to innovation and scaling up, Management notes the more recent emphasis placed on scaling up during country programme and project design and implementation.
5. Management shares IOE's concerns on the low ratings for efficiency (also identified in the project completion report [PCR] reviews). Management appreciates the ARRI's recognition that IFAD projects are "client-driven" and often located in remote areas, which makes achieving high efficiency more difficult. Efficiency is also reduced by the tendency of recipient governments to add activities/components to a given investment project. However, as pointed out in the ARRI, Management expects that the Consolidated Action Plan to Enhance Operational and Institutional Efficiency, endorsed by the Executive Board in September 2013, will help improve efficiency performance.
6. Management is also concerned about the relatively weak performance of government, but is pleased to note the recent upward trend. Through direct supervision and its country presence, IFAD is in a better position to support governments on a more regular basis. IFAD has implemented a number of capacity-building initiatives in recent years to help improve government performance. Management notes that the IOE indicator includes an assessment of "policies, institutions, services and inputs," while PCR data provides a separate rating on institutions and policies, which are generally rated less well than government performance. Given their importance, particularly in fragile states, IOE may wish to consider "unbundling" policies and institutions from its government rating in future.

¹ The number of projects included in each of the three-year rolling averages differs between figures 1 and 2, and includes projects reaching completion in 2014. IOE may wish to include an explanation of the greater number of evaluations appearing in figure 2.

7. With respect to the environment and natural resources, a historically weak impact domain, Management draws attention to IFAD's efforts to strengthen performance in this area. Since the 2009 ARRI, the Environment and Climate Division and Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund have been established to address issues related to natural resource management and climate change (footnote 39).
8. Management agrees with IOE that presenting the data in cohorts related to Replenishment periods provides a more meaningful trend analysis. The number of projects in each cohort using the three-year rolling average based on completion year is highly variable. Strong or weak evaluation data in any given year may unduly influence the data over a three-year period. Providing the data by Replenishment period would also require less time for calculation, allowing IOE to undertake more sophisticated statistical analyses.

C. Country programme evaluation

9. Management is taking steps to better integrate non-investment project activities into its country programmes. The country strategic opportunities programme (COSOP) guidelines (currently under revision) emphasize the importance of policy dialogue, knowledge management and partnership-building. Realistic objectives related to policy dialogue specific to the objectives of the country programme are to be included. The revised guidelines are intended to sharpen the focus of all aspects of the country programme, including some of the issues raised in this ARRI.
10. Cofinancing depends to a large extent on the strategic priorities of other donors and government policies. In the case of China for instance (para. 72), and for a number of other countries, the relatively limited international cofinancing is the result of a clear strategic choice by government to avoid projects cofinanced by more than one international financial institution.
11. Management agrees with IOE's assessment that a constraining factor is the "limited administrative resources allocated for the preparation and implementation of COSOPs" but notes that this is not fully under Management's control in a time of zero budget growth. The revision to the guidelines will reduce the number of COSOPs prepared (based on the number of projects in the current portfolio and/or the performance-based allocation system allocation), thus allowing for limited resources to be spread over fewer countries. While acknowledging that a completion report is not prepared for all completed COSOPs, annual COSOP assessments are carried out in almost all countries.
12. With respect to counterpart funding in middle-income countries (MICs), the ARRI suggests that IFAD should adopt a "more consistent approach to mobilizing counterpart funding from MICs." Management notes that it has a consistent approach but that an identical approach cannot be used for each MIC, given their well-known diversity.² Countries considered as MICs (based on GNI/capita) are heterogeneous: of the 91 countries identified by the World Bank as either upper- or lower-middle-income countries, 22 per cent are also considered as fragile states. An analysis of cofinancing (projects approved from 2004-2013) shows that domestic contributions (including government, beneficiaries, private sector and financing institutions) are lowest for low-income countries (22 per cent), rising to 27 per cent for fragile states (both low-income and middle-income countries), 36 per cent for lower-middle-income countries and highest for upper-middle-income countries (47 per cent). It is important to note that almost 30 per cent of lower-

² Paragraph 82 contains contradictory statements, first suggesting that GNI/capita should be used to determine a country's share [of counterpart financing] and in the next sentence noting "an approach to mobilizing counterpart funding will also need to take account of the heterogeneity of the countries (e.g. in terms of their size, GNI/capita, etc.)."

middle-income countries receive some form of Debt Sustainability Framework financing, indicating that those countries have tight fiscal constraints.

13. According to evaluation data, IFAD is below the results measurement framework (RMF) target for both national policy dialogue (para. 70) and partnership-building (para. 73). Management notes, however, that by agreement with the Executive Board, both indicators are measured through the client survey. Targets for both these indicators were surpassed in the 2014 client survey, which rated 97 per cent and 95 per cent of countries as being moderately satisfactory or better, respectively.

D. Benchmarking

14. Management notes with satisfaction that IFAD projects perform as well or better than those evaluated at other multilateral development banks. Management appreciates IOE's recognition that "IFAD operations are normally being implemented in more challenging contexts" (para. 9).

E. Cross-cutting issues raised by the 2013 evaluations

15. Most of the cross-cutting issues raised have been addressed in earlier comments. Management, however, cautions against the use of findings from a small sample of country programme evaluations to extrapolate issues across the portfolio. With respect to delays in entry into force, Management has been working to address this issue for a number of years. For projects that entered into force from 2011 to 2013, the period between approval and effectiveness stands at less than eight months as compared to the historical average of close to 12 months. The East and Southern Africa region is developing a start-up tool-kit that will provide project teams with basic guidance to identify priority activities over the first 15 months and develop a project plan for the life of the project and quantifiable objectives with accompanying timelines.

F. Learning theme

16. Management agrees with IOE on the importance of good project management to achieve results. However, there are fundamental disagreements on some of the findings presented.
17. As the starting point, the ARRI looks at whether project coordination units/project management units (PCUs/PMUs) are fully consistent with the Paris Declaration on Aid Effectiveness, yet it does so in a superficial manner, and seems to imply that IFAD has ignored the Paris Declaration by supporting parallel PCUs/PMUs. IFAD project-related coordination/management units are established by ministerial decree, which provides them with the legal status needed to handle government funds; therefore they cannot be considered as acting in parallel to government. The ARRI is somewhat contradictory in this regard. Paragraph 120 states that "There has been little change in the pattern of project management arrangements at IFAD over the 1999-2011 period", yet paragraph 130 states that "There has been a positive trend away from the use of PMUs to implement project components, and an increasing reliance on service providers. In effect, PIUs have been replaced by PMUs."
18. A study by the Policy and Technical Advisory Division (PTA) examined IFAD's compliance with the Paris Declaration and found that IFAD does very well in using government processes. In cases where IFAD was less compliant with the spirit of the Paris Declaration, it was typically due to a government request that the IFAD project not use standard public-sector processes for greater effectiveness and faster implementation.
19. Another project management issue is the role of IFAD in providing strategic guidance, for example through steering committees. Unfortunately, the ARRI provides only two paragraphs on this important issue, drawing largely from the PTA

study. The ARRI seems to imply that IFAD staff sit on project steering committees, but this is not the case. While IFAD staff may attend meetings as resource people, the committees as constituted in legal agreements do not include IFAD staff. Better strategic guidance would impact positively on overall project implementation.³

20. Management agrees that greater use of competitive processes to recruit project management staff is desirable, and encourages staff selection on that basis. Whether or not to use competitive processes, however, remains a government decision. IFAD does seek to influence the selection process through the use of "no objections" and through the use of performance-based contracts for project staff.
21. Management agrees that "project management arrangements need to be 'tailored' to the country and project context." Such arrangements are largely dictated by the government, based on national processes and procedures. Management appreciates the ARRI's observation about the lack of fully documented good practice on project management.

G. Methodological improvements⁴

22. IFAD Management welcomes the revision of the IFAD Evaluation Manual, and looks forward to providing input into its further development. IFAD's new guidelines for project completion reports will be harmonized with the new Evaluation Manual so as to promote comparability.
23. Last year's Management response queried the inclusion of project evaluations that are part of country programme evaluations (CPEs). Management reiterates its concern that inclusion of these less rigorous evaluations makes the dataset less comparable and reliable. Management also notes IOE's recognition that the data series yielded by project performance assessments/project completion report validations is limited in number and thus may not provide reliable data on trends.
24. Management is concerned that some very young projects⁵ were rated as part of a CPE, and while these ratings may be useful to help steer projects towards better results, the value of these ratings compared to evaluations of completed or near-complete projects is limited. For example, the Sahelian Areas Development Fund Programme (FODESA) in Mali was part of a CPE reported in 2006 and again in 2012. The average rating for this project in 2012 was 4.13 whereas in 2006, it was rated 3.18. Conversely for the Microfinance and Technical Support Project in Bangladesh the CPE findings published in 2005 rated this project an average of 5.25 compared to the 2011 PPA of 4.67. The CPE rating was based only on ratings for relevance and IFAD performance. Moreover, inclusion of projects still under implementation in the ARRI dataset skews the results unpredictably.
25. Management recommends that projects still under implementation be included as part of the country programme evaluation, but that this data not be included in the ARRI dataset. These findings do not support IOE's view (para. 52) that if included as part of a CPE, projects would not undergo either a PCRV or a PPA; which contradicts the ARRI assertion that "the same project, once completed, would eventually be separately evaluated through a dedicated PCRV or PPA (or an impact evaluation)..." (para. 14). Management feels that there would be value in undertaking one of these evaluations at completion.

³ The performance of steering committees has been included as part of the criteria for rating project management in project status reports since 2011, which along with the introduction of direct supervision may more realistically explain the "drop" in performance of projects approved since 2009, described in para. 116.

⁴ The ARRI dataset used in this response was downloaded on 1 October 2014.

⁵ Twenty projects under implementation for three years or less are included in the dataset. This represents slightly more than 20 per cent of all projects evaluated by CPEs. The ARRI dataset does not include the year of evaluation; this figure assumed an evaluation date of one year prior to the ARRI date and thus may undercount the number under implementation for three years or less.

H. Conclusions and recommendations

26. Management appreciates the recommendations made in this year's ARRI. Budget neutrality needs to be demonstrated before any recommendations are considered by Management.
27. Management notes the IOE recommendation to undertake COSOP completion reviews. However, without an increase in administrative budget, a COSOP completion review can only be done at the expense of another activity. IFAD is formulating new COSOP guidelines where Management will stipulate that material to be covered in the proposed COSOP completion reviews will be treated in the CPEs and in the project evaluations.
28. Management agrees with IOE about the importance of project management. However, no specific project recommendations were made in chapter III of the ARRI.
29. Budgeting for project and country activities is the job of the regional divisions. Their limited budgets are allocated according to the requirements of the country programmes. Additional budget is routinely allocated to problem projects or to work in fragile states. The establishment of thematic and dedicated trust funds has been initiated in the context of the efforts to mobilize resources. The Partnership and Resource Mobilization Office has already been exploring opportunities – not to complement IFAD's own administrative budget but rather to enhance/mainstream areas of mutual relevance to increase the impact of IFAD-supported programmes. However, trust funds imply bureaucracy – to mobilize and manage resources, and to monitor their use.
30. IFAD has made remarkable progress in decentralizing staff. Some 50 country offices have been approved by the Executive Board. Some 85 staff are working in IFAD country offices, equivalent to about 15 per cent of all staff and to about one third of Programme Management Department (PMD) staff. Decisions with respect to regional/subregional offices will be informed by the audit of the IFAD regional office in Nairobi and by the budget situation.
31. Management disagrees with the recommendation to use evaluation ratings in the Report on IFAD's Development Effectiveness (RIDE) or other reports. IFAD has a robust self-evaluation system, the objectivity and reliability of which are demonstrated by the narrow disconnect between self-assessment and evaluation findings.
32. Management underlines the complexity of measuring sustainability. It is an extremely broad topic, particularly taking into account the realities in which IFAD projects are implemented, and requires a better evidence base than past evaluations or literature review. Before sustainability is chosen as a learning theme, agreement should be reached on the scope and methodology of the review. A more meaningful review of sustainability could be made if IOE undertakes ex post evaluations several years after project completion.
33. Management appreciates the efforts of IOE to make public the ARRI dataset (in Excel), in line with commitments made to the Evaluation Committee. Management welcomes IOE's intention to verify the ARRI dataset. IOE is urged to update the data more frequently, both with more recent evaluations and with information on project completion and financial closure. IOE should also work with the Information and Communications Technology Division and PMD to include evaluation data (ratings) in the corporate system on projects and programmes – the Grants and Investment Projects System (GRIPS) – along with PCR data.