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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Governing Council – Twenty-ninth Session

Rome, 15-16 February 2006

REPORT AND RECOMMENDATION OF THE EXECUTIVE BOARD ON SUPERVISION

Direct Supervision Pilot Programme: Origin and Objectives

1. In the light of the requirement under Article 7, Section 2(g), of the Agreement Establishing IFAD that IFAD entrust the administration of loans and supervision of the implementation of the project or programmes to competent international institutions, a joint review of supervision issues was undertaken and the report was reviewed by the Executive Board in December 1996.¹ Following this, the Governing Council adopted Resolution 102/XX in 1997 allowing up to 15 IFAD-initiated projects to be directly supervised and administered during a period of five years.²

2. The overarching objective of this initiative, referred as the Direct Supervision Pilot Programme (DSPP), was to enable the Fund to acquire first-hand knowledge from supervision activities and to incorporate lessons learned from ongoing operations more effectively into its 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”.

¹ This was undertaken jointly with four cooperating institutions: the African Development Bank, the Arab Fund for Economic and Social Development, the United Nations Office for Project Services and the World Bank.

² Governing Council Resolution 102/XX on Loan Administration and Supervision of Project Implementation, adopted on 21 February 1997 (see also paragraph 4, page 2).

3. The Fund's involvement in direct supervision was also intended to complement and improve cooperating institutions' own activities (mainly the human dimension of projects/programmes). Although enhancing development effectiveness was not an explicit objective, direct supervision was expected to contribute to improving implementation performance and project impact.

4. This initiative was approved with an implementation period of five years from the date of effectiveness of the last such project approved and will accordingly cease to be effective in June 2006.³

Objective and Approach of the DSPP Evaluation

5. With the objective of conducting an overall assessment of the DSPP's achievements in enhancing the implementation and impact of IFAD-funded operations, a corporate-level evaluation was undertaken by the Office of Evaluation (OE) in 2004-2005. Preceding this exercise, in 2002-2003, OE had undertaken an evaluation of the supervision modalities in IFAD-supported projects aimed at assessing the results of the action plan. The objectives of this evaluation were to measure the effectiveness of current supervision modalities against minimum supervision requirements and to review the overall achievements in implementation of the action plan. The evaluation attempted to assess the emerging characteristics of the DSPP. However, it was not able to perform a deep analysis of the topic because the DSPP projects had only been under way for a short time when the evaluation supervision modality was carried out.

6. The evaluation of the DSPP, which builds on the methodology and results of the evaluation supervision modality, involved a comparison of the directly supervised projects with 15 projects supervised by cooperating institutions. These were selected on the basis of the criteria agreed with the evaluation's core learning partnership.

Summary of Evaluation Findings

7. The findings and the agreement reached at the completion point of this evaluation were presented and discussed first by the Evaluation Committee and then by the Executive Board in September 2005 (document EB 2005/85/R.9). A brief summary of conclusions is presented below:

- (a) A consistent trend in the overall evaluation analysis demonstrates that, compared with supervision by a cooperating institution, direct supervision has greater potential to contribute to better development effectiveness at the project level and, at the same time, allows greater attention to IFAD's broader objectives at the country programme level.
- (b) Moreover, through direct supervision, IFAD has been able to emphasize issues of prime concern such as gender mainstreaming, targeting and the building of grass-roots institutions, which taken together are important elements in ensuring sustainability.
- (c) In view of their more frequent and longer presence in countries with direct supervision, country programme managers (CPMs) have wider opportunities to advance IFAD's objectives at the country programme level, including policy dialogue and partnership development. Although there is no conclusive evidence that new partnerships have resulted from the DSPP, governments and other development partners at the country level have unanimously expressed their deep appreciation for the more frequent direct interaction, follow-up and communications with CPMs, rather than having to communicate through representatives of cooperating institutions.

³ The last of the 15 directly supervised projects became effective in June 2001.

- (d) Direct supervision has contributed to developing IFAD's knowledge base, mainly by enriching the CPMs. The knowledge institutionalization process has been weak, however.
- (e) Direct supervision allows CPMs to strengthen country-level coordination and also facilitates the strengthening of existing IFAD-funded programmes. IFAD, however, lacks a quality assurance system for direct supervision; as a result, the DSPP was approached and implemented in a variety of ways. Both continuous and periodic quality assurance systems are therefore fundamental if direct supervision activities are to be expanded.
- (f) In nominal terms, the average cost of direct supervision is higher than the average cost of supervision by a cooperating institution. The evaluation argues, however, that cost should not be seen in isolation from the benefits the DSPP has evidenced. Potential also exists for efficiency gains under direct supervision arrangements.

8. In managing the DSPP, a number of shortcomings were noted: flagging interest by management; no mid-term review, analytical accounting system or effective monitoring system; and a lack of common understanding on certain aspects – in particular the term “supervision” – among IFAD, cooperating institutions, project staff and governments.

9. In line with the findings and recommendations of the DSPP evaluation, an agreement at completion point was agreed upon for implementing five principal recommendations. As follow-up, a new supervision and implementation support policy would be presented to the Executive Board by mid-2007. In the meantime, it was also agreed that Article 7, Section 2 (g), of the Agreement Establishing IFAD was to be amended to allow: (i) direct supervision by IFAD of its projects; and (ii) the selection of a wider range of cooperating institutions.

Extension of the DSPP

10. The DSPP evaluation also recommended that IFAD should continue providing direct supervision and implementation support to ongoing projects and programmes in countries included in the DSPP. Since the authorization of the Governing Council for such an initiative will expire in June 2006 (paragraph 4 above), it has become necessary to amend Governing Council Resolution 102/XX.

11. The Executive Board, after due deliberation at its Eighty-Fifth Session in September 2005, endorsed the recommendations contained in the DSPP evaluation's agreement at completion point,⁴ including extension of the implementation period for the DSPP, a provision for the interim phase and amendment of Article 7, Section 2 (g), of the Agreement Establishing IFAD. This fulfils the requirements set by the Governing Council at its Twentieth Session with respect to the DSPP in Resolution 102/XX.

Recommendations

12. The Governing Council is invited to consider this proposal and to adopt the annexed draft resolution.

⁴ Document EB 2005/85/R.9.

ATTACHMENT**DRAFT RESOLUTION ON LOAN ADMINISTRATION
AND SUPERVISION OF PROJECT IMPLEMENTATION**

Resolution -----/XXIX

Loan Administration and Supervision of Project Implementation

The Governing Council of IFAD,

Having considered the Report and Recommendation of the Executive Board on Supervision;

Recalling its Resolution 102/XX on Loan Administration and Supervision of Project Implementation, adopted on 21 February 1997;

Desirous of strengthening the operational effectiveness of IFAD on project supervision and loan administration;

Noting the provisions of Article 7, Section 2 (g), of the Agreement Establishing IFAD to the effect that IFAD “shall entrust the administration of loans, for the purposes of the disbursement of the proceeds of the loan and the supervision of the implementation of the project or programme concerned, to competent international institutions.”;

Decides that:

1. The 15 directly-supervised and administered projects financed by IFAD in accordance with Resolution 102/XX shall continue to be directly supervised and administered until such time as the IFAD loans for the projects shall be closed, notwithstanding the provisions of Article 7, Section 2 (g), of the Agreement Establishing IFAD.
2. Article 7, Section 2 (g), of the Agreement Establishing IFAD is hereby amended to read as follows (the text to be deleted is struck out and the text to be added is underlined):

“Except as the Executive Board shall otherwise decide, the Fund shall entrust the administration of loans, for the purposes of the disbursement of the proceeds of the loan and the supervision of the implementation of the project or programme concerned, to competent national, regional, international or other institutions or entities. Such institutions or entities shall be of a world-wide, ~~or regional~~ or national character and shall be selected in each case with the approval of the recipient. Before submitting the loan to the Executive Board for approval, the Fund shall assure itself that the institution or entity to be entrusted with the supervision agrees with the results of the appraisal of the project or programme concerned. This shall be arranged between the Fund and the institution or agency in charge of the appraisal, as well as with the institution or entity to be entrusted with the supervision”.

3. Paragraph 43 of the Lending Policies and Criteria is hereby amended to read as follows (the text to be deleted is struck out and the text to be added is underlined):

“Project identification and preparation are normally the primary responsibility of the government seeking IFAD funds. The Fund will secure, where necessary, the services of other international or regional institutions to assist the countries in the identification and preparation of projects. The Fund, while utilizing the services of national, international, and regional and other institutions or entities in project appraisal and the supervision of project implementation, will itself actively participate in these activities, in order to ensure the observance of its lending policies and criteria, and may occasionally, with the authorization of the Executive Board, supervise project implementation directly.”

This Resolution and the amendments contained therein shall enter into force and effect on the date of its adoption by the Governing Council.