

## IFAD's response to the DFID Multilateral Aid Review

1. IFAD welcomes the opportunity to participate in the Multilateral Aid Review (the Review) carried out by the Department for International Development (DFID). This assessment recognizes that *"IFAD is the only international organization to focus exclusively on rural poverty"* in supporting progress on the first Millennium Development Goal (MDG 1), and that the Fund places *"emphasis on empowering women, contributing to MDG3"*, both of which are also development objectives of the United Kingdom. Since the Independent External Evaluation of IFAD in 2005, and the Action Plan that followed, IFAD has adopted a series of corporate planning and management instruments as part of a far-reaching Change and Reform Agenda to strengthen IFAD's ability to deliver on its development outcomes at country level and to manage its performance as an organization.
2. IFAD is a comparatively small organization, as the Review acknowledges, but it uses its results-based country strategic opportunities programmes (COSOPs) as the basis for strategic alignment with country-led plans and national and regional policymaking (e.g. the Comprehensive Africa Agricultural Development Programme process). These provide an overview of the country funding allocation and are followed by full country-level consultations, supported by structured annual feedback through client surveys. We are progressively improving the overall outreach and impact of IFAD-funded operations – currently about 260 investment projects and programmes and approximately 300 grants – through an increased focus on scaling up and cofinancing. Our focus on fragile states will also continue with an approach guided by the specific country context, is sensitive to the vulnerability of the target group, and is cognisant of the need for an enhanced level of direct project supervision by IFAD to improve performance.
3. The following are responses to specific issues raised in the Review:
  - **Climate change:** The extent to which climate change is transforming the context for rural development is a major challenge for our target populations, our partners and for IFAD. Although IFAD has many years of experience in assisting communities in increasing their resilience to climate change through, for example, drought preparedness and management, we have recently reassessed all our policies on environment and climate. In 2009, we developed new environmental safeguard procedures. In 2010, we adopted the IFAD Climate Change Strategy. And in 2011, IFAD will adopt a new policy on Environment and Natural Resource Management. These procedures and policies have a common objective: to integrate climate and environment issues fully across the IFAD-supported portfolio. To this end, IFAD is making good progress in working through the detailed and time-bound implementation matrix given in its new Climate Change Strategy. In addition, in 2010 IFAD creating an Environment and Climate Division, doubling its dedicated staff capacity on environment and climate change. Finally, through efforts to green IFAD's own facilities, including its Headquarter building, IFAD achieved a Gold LEED Certificate ("Leadership in Energy and Environmental Design") in recognition of our state-of-the-art

headquarters design and environmental management practices. In 2011 IFAD established a new network of regionally based climate and environment advisers to ensure that these issues are systematically integrated at all stages of the project process – from country strategy through to project implementation and evaluation. We have also established dedicated capacity on climate knowledge management to share what we are learning internally and with external partners. IFAD is, moreover, expanding its use of existing and new sources of environmental finance to create a stronger internal incentive.

- **Focus on poor countries:** The Review has rightly assessed the focus of multilaterals on poor countries through using an indexing formula that accounts for both the need (numbers of poor people) and the potential of aid to be effective in a country. IFAD, together with several other multilaterals (the International Development Association-IDA, the African Development Bank and the Asian Development Bank) applies a similar process: the performance-based allocation system, which also uses needs and effectiveness/performance criteria similar to those applied by DFID. (Note that IFAD also applies the post-conflict allocation approach as implemented by IDA). As part of the performance criteria, which include portfolio performance, IFAD's specific mandate is reflected by the inclusion of the Rural Sector Performance Assessment, combining 12 key variables (such as strength of civil society; gender; access to natural resources; rural governance). The data, publicly available, have been used by the Mo Ibrahim Foundation (for rural governance) and, more recently, by the Global Agricultural and Food Security Program (to assess applications for funding). While the Review notes that IFAD has a "*clear and transparent system to allocate aid*", it nevertheless expresses a concern that the amount of IFAD's country-by-country spending "*is still lower than the multilaterals that perform best in this component*", i.e. allocates less financing to poorer countries. In clarification, it is important to note that, unlike the other multilaterals with highly concessional 'windows', IFAD extends loans to all of its eligible members, including middle-income countries. While IFAD's 'index' foresees a progressive reduction of resources for richer countries, the inclusion of all countries in the IFAD 'sample' rather than only low income countries as is done by the other international financing institutions (IFIs), produces different results. The use of a sampling methodology for the IFAD analysis similar to that used for other IFIs, i.e. that excludes middle-income countries, would produce comparable results with those institutions.
- **Contribution to results:** There is no doubt that sustainability of results and efficiency remain important challenges for all multilateral programmes per se, with aid effectiveness and results reporting being emphasized as we move towards the High-Level Forum on Aid Effectiveness next year in Busan, Republic of Korea. IFAD's Results Measurement Framework sets out a five-tier structure, as follows: first tier: the achievement of development outcomes, focusing on high-level country development progress; the second and third tiers capture development results related to

IFAD-supported programmes; and the fourth and fifth tiers reflect IFAD's organizational effectiveness and efficiencies. IFAD reports annually on these results tiers in the Report on IFAD's Development Effectiveness or RIDE. In addition, IFAD's independent Office of Evaluation reports annually on project relevance, effectiveness and efficiency, as well as on overall project performance in the Annual Report on Results and Impact (ARRI) of IFAD operations. At all levels of results management, IFAD's projects make critical contributions to expanding opportunities to the rural poor.

Nevertheless, achievement of economic efficiency in rural development projects is a persistent challenge that is shared by other IFIs. IFAD is therefore looking closely at what works and what does not in its on-going portfolio. Among the factors identified as contributing to a satisfactory level of efficiency are appropriate, simple and focused design; rapid decision-making; and good administration. Other factors are the capability and appropriate size of the project management unit; capable service providers; use of local contractors; and competitive bidding. Where efficiency is an issue, there is often a combination of factors: poor implementation performance, delayed effectiveness and disbursement, and high operating costs.

Regarding sustainability and country ownership in IFAD-funded projects, there is a need to concentrate more on sustainability constraints such as under-resourcing institutional capacity; establishing mechanisms to sustain project outputs; and the development of appropriate exit strategies. Positive experience is evident when projects have developed, and are actively supervised, a phasing-out strategy is implemented, enabling activities to be mainstreamed into government programmes and the newly created institutions, where relevant, incorporated into the public administration. Such projects have also addressed the issue of financial sustainability by making sure that future funding is taken over by the Government.

- **Strategic and performance management – human resources reform:** IFAD recognizes the benefits of continuous reform process, particularly in the area of human resources management. IFAD is implementing a coherent and comprehensive Change and Reform Agenda, which comprises five pillars, including human resources reform. This envisages (i) finalization of the strategic workforce plan, with a focus on workforce alignment to support country programming and implementation, strategic workforce management for increased efficiency and cost containment, and strengthening of the corporate framework for managing the workforce for development effectiveness and efficiency; (ii) a revised performance management system, e.g. 360-degree staff and management reviews; (iii) a staff induction programme; (iv) the introduction of a voluntary separation programme; and (v) the publication of the revised human resources manual and staff rules.
- **Financial resources management:** The management of IFAD's internal performance is fundamental to enhancing its contribution to country-level

results. Towards this end, IFAD has set up the Corporate Planning and Performance Management System, which is linked to the budget and to IFAD's enterprise risk management (ERM) system. The ERM framework is implemented through both a top-down and bottom-up risk management and mitigation process whereby staff and management electronically assess corporate risks. Financial risk management (credit, market, currency risks as presented in the financial statements) is audited annually by IFAD's external auditors, PricewaterhouseCoopers) supplemented with oversight from two management committees. In 2009, IFAD launched a financial controls assertion process, which in 2012 will lead to an external attestation on the effectiveness of controls for financial reporting.

Levels of disbursement of IFAD programmes at country level remain an issue that IFAD monitors regularly and shares lessons on with other IFIs through the Common Performance Assessment System process. Slow disbursement performance is partly due to the type of programmes that IFAD supports in rural areas, which are focused on process and capacity rather than on pure capital infrastructure investment. The increase to 81 per cent of projects being directly supervised by IFAD has facilitated greater engagement and closer cooperation with country stakeholders. It is also contributing to better and timelier project implementation, and has enabled IFAD to pay special attention to disbursement issues, focusing on the development of the annual programme of work, procurement methods and monitoring of implementation. Furthermore, direct supervision has supported the need for differentiated country products (both technical and financial) and the variations in programme design that need to be introduced.

- **Cost and value consciousness:** Efficiency and value for money constitute a key corporate objective for IFAD, measured by the Results Management Framework with the indicator "*percentage of budgeted expenses per US\$1 of loan and grant commitments*". However, these expenses involved are not simply administrative expenses, but include all expenses funded from the administrative budget, including all expenses for country programme design, preparation, and supervision. Nevertheless, IFAD recognizes that its administrative programme ratio is too high and continues to promote value for money and accountability throughout the organization. To this end, IFAD is undertaking a comprehensive corporate business process review, involving both headquarters and country offices and is assessing loan and grant management to implement electronic disbursement processing for faster transfer of funds to projects at country level.