Office of Evaluation

IFAD
Enabling poor rural people to overcome poverty

issues paper

THE 2008 ANNUAL REPORT ON RESULTS AND IMPACT OF IFAD OPERATIONS (ARRI)

COUNTRY CONTEXT AND THE IMPACT OF IFAD-FUNDED ACTIVITIES

1. **Background.** Policy documents of the international development institutions (IDIs) are replete with statements that 'one size does not fit all' and that development approaches need to factor country context into operational policies and programs. In practice however, until recently the differentiation has been modest. The most important difference has been the degree of concessionality of the terms of loans to countries with different income levels. Over the past decade performance has become an important driver of differences in approach to various countries, particularly with regard to the scale of support. It is only recently however, that the operational approaches have begun to diverge significantly by country category. This has been a consequence of pressures coming from two opposite directions. First, the IDIs have found themselves needing to deal with a group of **Middle Income Countries** (**MICs)** that value the knowledge the IDIs can provide but are rarely willing to pay high transaction costs and above market interest rates to acquire that knowledge. This has forced institutions such as the World Bank, the African Development Bank and IFAD to re-think their approach to MICs and make significant modifications. Second, there has been increasing concern on the part of the international community that the IDIs address the needs of **Fragile States**[1]**.** There has been growing recognition that because of their weak capacity and in many cases lack of internal security, Fragile States require a different business model and almost all the IDIs have put out policy documents in the past two or three years outlining new operational approaches to Fragile States.[2]

2. During its session in December 2007, the Executive Board decided that the Office of Evaluation (OE) should include a dedicated section in the 2008 Annual Report on Results and Impact of IFAD Operations (ARRI) on the issue of **country context** and the implications for achieving the objectives of IFAD-funded projects and programmes. This follows the initial analysis contained in the 2007 ARRI (see Table on p. 3), which revealed that there appears to be a correlation between the overall country context and the results and impact of IFAD operations.

3. **Objective.** The objective of this issues paper is to promote debate and exchange of experiences among IFAD staff around this important topic during a workshop on 29th May, 2008. Building on the contents of this issues paper and the inputs of IFAD staff during the workshop, OE will prepare a dedicated section on the topic for the 2008 ARRI. Moreover, the issues paper and key elements from the workshop may serve as an input for the preparation of IFAD's overall approach to working in different country contexts (e.g., MICs, fragile states, and low income countries).

4. **Process.** This issues paper was prepared following the examination of numerous OE evaluation reports, holding bi-lateral consultations with representatives of the IFAD management, staff in the Programme Management Department and other organizational units, as well as by reviewing selected literature from other

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[1] There are a number of definitions of which countries are covered by this, which all broadly encompass post-conflict and poor performing countries. The IFAD policy on Crisis Prevention and Recovery (see page 3) says that "Fragile States are defined as those states that are unable or unwilling to deliver basic services – ranging from security and justice to health and education – to their people. Poor governance, weak institutional capacity and significant inequality characterize state fragility. Fragile States are often associated with the presence of risk of violent conflict".

[2] This expanded focus on Fragile States runs counter to the performance based allocation systems which most IFIs (including IFAD) have put in place for concessional funding.

international development organizations. Moreover, as part of the reflection process on country context issues, OE organized two in-house workshops on 19 and 28 May on the evaluations of the World Bank's experiences of working in Fragile States and MICs.

5. **The hypothesis.** Analysis carried out for the 2007 ARRI indicated that country context was an important predictor of the success or failure of an IFAD-supported project. The table on p. 3 (Table 15 of the 2007 ARRI) shows that, over the period 2002-2006, income status, country and rural sector performance were all closely correlated with the degree of achievement of satisfactory rural poverty impact. While divergences impacts for say MICs and Fragile States are characteristic of all multilateral development banks[3], the size of the divergence in IFAD's case is considerable and there is concern to understand better the factors that drive this discrepancy.

6. **Definition and measurement.** For purposes of this issues paper, 'country context' is defined as the initial and evolving conditions in which a project or country programme is prepared, implemented and evaluated. In this usage, the term "country" is not synonymous with "nation-wide". For purposes of IFAD-assisted projects and programmes, it also comprises conditions relating specifically to the rural sector, including regional and local governance in rural areas. The following elements in the country context are of particular importance for the achievement of the objectives included in IFAD-funded projects and programmes.

- The 'rules of the game', that is, the political/social/and economic environment in which the projects operate, governance, legal systems, representation, the functioning of markets and their regulation, the maintenance of law and order, etc.;
- The physical environment, that is, the climate, natural resource endowment and physical infrastructure, etc.;
- Social and human capital, that is, the forms of social organization, social cohesion, education, gender issues, development of entrepreneurship, development of civil society, etc.;
- Organizational capacity, including the ability of those institutions charged with development management to implement agreed operations; and
- Individual skills, specifically the availability of the human resources needed to implement development projects and programmes effectively and efficiently.

7. In addition to analyzing and factoring in these conditions, country context also requires that assumptions be made as to the evolution of these variables during the life of the project. The project is based on the most likely path of evolution, but allowance is also made through analysis of risks, for divergence of the actual path from that originally projected. Projects should normally include allowance for high probability risks, but it is neither realistic nor efficient to try to protect against all risks ex ante and a major part of the adjustment to unexpected events is normally left to the process of project supervision and implementation support. Fragile States are usually characterized by less predictability and a greater probability that reality will diverge from the assumptions about the likely evolution of the project environment.

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[3] By comparison, World Bank data show about 90 percent of projects as having satisfactory outcomes overall, about 80 percent satisfactory for agriculture and rural development and about 60 percent satisfactory for projects in Fragile States. The recent meta-evaluation of ADB and IFAD projects in Africa confirms that, for both organizations, projects have a satisfactory or moderately satisfactory impact on rural poverty about 55 percent of the time. A recent IEG evaluation of World Bank's project outcomes in ARD in Africa from 1990 to 2007, gives a figure of about 60 percent satisfactory.

Table 15 of the ARRI Presented to the Executive Board of IFAD in December 2007

Overall achievement by country context, 2002-2006

	Overall achievement (percentage)	
	Satisfactory (4-6)	Unsatisfactory (1-3)
Income level		
Low income (US$905 or less)	55	45
Lower middle income (US$906-US$3 595)	81	19
Upper middle income (US$3 596-US$11 115)	88	12
CPIA classification		
CPIA[a] quintile 3-5	31	69
CPIA quintile 1-2	81	19
Non-IDA countries[b]	83	17
Rural Development Sector (RDS) score[c]		
RDS score 3.75 or below	33	67
RDS score 3.76-4	58	42
RDS score > 4	85	15

[a] Countries are classified into five CPIA quintiles, according to four main criteria: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public-sector management and institutions. Countries with the best CPIA rating are in the 1st quintile and those with the worst in the 5th.

[b] The World Bank only classifies the 80 poorest countries – International Development Association (IDA) borrowing countries – in the five CPIA quintiles. The figures for 'non-IDA countries' are based on the overall project achievement calculated in the ARRI report. For IFAD, these are countries borrowing on ordinary terms.

[c] Each country has an average rural-sector performance assessment score, prepared by IFAD Management. A six-point rating scale is used, with 6 being the highest score possible and 1 the lowest. The average score is based on individual scores across 12 parameters (e.g. policy and legal framework for rural organizations, access to land, dialogue between government and rural organizations, etc.). The rural-sector performance assessment score is used in developing the country score and country allocation under the PBAS.

8. **Selected evaluation findings.** The projects evaluated between 2002-2006 (covered in the 2007 ARRI) having unsatisfactory impacts, were reviewed to assess whether common patterns emerged with regard to (a) the relation of design to the country context; and (b) the treatment of changes in context in the course of implementation. In addition, a cross section of Directors and Country Programme Managers (CPMs) of IFAD were interviewed to obtain anecdotal evidence on the hypotheses (see paragraph 5) derived from the sample as to the causes of relatively unsatisfactory project impact in fragile and poor performing states.[4]

[4] IFAD has also found that country context is a relevant indicator of the riskiness of its portfolio under implementation. The Portfolio Performance Report for 2006/7 indicates that analyses of the portfolio 'at risk' shows that the country context – defined in this case as a country having at least one project at risk during the previous year – plays an important role. It increases by 35 percent the likelihood of any new project become a problem project.

(a) Analysis of country context and risks in project design

9. The first question is whether the country context has been well analyzed and understood in designing the project. The analysis of conditions starts with the COSOP. Judging from the sample of COSOPs reviewed for this exercise, they provide a fairly good description of the rural poverty complex in the country, and form a good basis for a policy dialogue on selected issues. The COSOP is not however a free-standing piece of analytic work, nor is it intended to be. With its focus on IFAD-funded projects, it provides very limited analysis of the factors influencing rural poverty.[5] In response to a critique in the Independent External Evaluation of IFAD carried out in 2004/5, COSOPs now include a SWOT (strengths, weaknesses, opportunities and threats) analysis carried out on the key organizations that are relevant for addressing rural poverty in the country. This is potentially a good instrument for dialogue with the concerned institutions and for designing programs of technical support for them.

10. IFAD needs to consider whether it needs to make additional investments in building up its knowledge base and transferring knowledge to its clients. The evaluations of projects suggest that in a number of cases, weak design reflected insufficient knowledge of country conditions. Examples given below suggest basic knowledge gaps in some cases. IFAD is addressing this by increasing its country presence and this should assist in better understanding of country context and lead to designs reflecting that understanding. But will this be sufficient in an environment where the IDIs are increasingly valued for their knowledge rather than financial resources, especially in the MICs? The recent World Bank evaluation of the MICs suggest that these countries are looking for global knowledge which is tailored to the country context, and this is corroborated by the findings of the recent country programme evaluations in Brazil and Mexico. IFAD will need to consider whether it is investing enough in acquiring and transferring such knowledge.

11. Turning to those contextual factors that are most relevant to project impacts, the evaluations and those interviewed support the view that the key drivers of satisfactory impact in IFAD operations are the *quality of the project managers and the managing institution.* In the words of one CPM: "A good manager can rescue a project with a poor design, but a bad manager will not succeed even where the design is a good one".

12. A number of evaluations and those interviewed mentioned the relation between *project complexity* and managerial capacity as an important issue. Where projects tended to be overly complex, often with too many different components and/or multiple managing institutions, they required very strong managerial capacity for success and this is obviously not available in Fragile States[6]. By contrast, relatively simple operations or those with fewer components could be more easily supervised and tended to have better results.[7] There is an important tension here between the need to cover a range of activities that fall within IFAD's mandate in low income countries and Fragile States, and the capacity to manage and implement such programs (see Box 1). It is likely that in low income countries and Fragile States there will be more

Box 1. Excessive complexity in a post-conflict environment: The Niassa Agricultural Development Project in Mozambique

The process of designing the project started before the peace agreement was signed in 1992. The objectives were to improve income, employment and food security of 45 000 poor farm households through agricultural extension and research, rural financial services, a commercial network, the repair and upgrading of roads, and restoring community infrastructure. Implementation involved many different local partners. The project was judged to have been moderately unsatisfactory, in part due to unrealistic targets set out at the design stage. The evaluation argues that "The challenges of working in an area that had negligible institutional and human capacity in both the public and private sectors were underestimated at project design. In remote areas with limited human and institutional capital, considerable investments in capacity development are required in the early implementation phase, and repeat training is needed to bring new staff on board*. These needs are significantly higher in multi-sector projects with many implementation partners*".

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[5] For example, a 2005 COSOP for a MIC, covers health and education issues as follows: "High levels of illiteracy and poor health are additional causes of rural poverty. Low levels of social services continue to constrain the development of rural areas. Much of this appears to be the result of the increasing market-determined costs of social services and policies that make resource-strapped local governments responsible for the financing of these services."(para. 22) There is no further elaboration of this in the document.

[6] The Niger Programme Special National phase II evaluation states for example that a key lesson of the program is that "Rural development projects should be better targeted in terms of area and sector and confined more narrowly to sectors judged priorities for rural development."

[7] Complexity is not of course only a matter of the number of components. A single component can be very complex whereas a project with multiple components each simple in design and clear in arrangements for management and accountability can in principle be easier to implement.

need for projects to help achieve gender balance and promote micro-finance programs to cite just two examples, and a tendency therefore to incorporate such objectives in programs and project design.[8]

13. By contrast, given its relatively small size, IFAD has limited leverage to influence governments and operations in MICs to tackle broader aspects of rural poverty such as community empowerment, gender and environmental considerations. The terms on which IFAD currently lends to the MICs are at or above commercial terms, and in some cases MIC Governments are unwilling to borrow funds for 'softer' programs or sectors. Some of those interviewed felt that this led to projects in MICs being more focused, and paradoxically easier to manage in situations where there is greater institutional and individual capacity to manage complex programs (see Box 2).

Box 2. Greater effectiveness and impact in MICs, yet better relevance in low income countries

Generally speaking, over 80 percent of IFAD operations are evaluated as having satisfactory impact in MICs. The meta-evaluation of African Development Bank and IFAD in Africa found that on four out of five standard performance criteria, the MICs outperform low income countries, most notably in achieving effectiveness and rural poverty impact. However, low income countries have a superior average rating for relevance. This likely reflects IFAD's limited leverage in MICs, and its inability to design projects with all the different facets of the rural poverty complex. IFAD generally operates in those areas of the MICs that most closely resemble lower income or even least developed countries. This is the case in Brazil, where IFAD-funded projects are mainly confined to the poor and arid North-East region. The recent Brazil country programme evaluation found that IFAD-funded projects in Brazil's North-East are in the satisfactory zone in terms of effectiveness, and this provides some insights as to the contrast between IFAD's record in MICs and in poor performing states. The key appears to lie in institutional capacity. In Brazil there are clear 'rules of the game' and procedures. There are well developed NGOs that can provide for strong partnerships with project management. IFAD seems to be valued as an experienced and objective interlocutor and its small size and limited role in resource transfer is perceived as an advantage.

14. Some CPMs interviewed were of the view that complexity also encompassed the number of donors (co-financiers) involved in a project. Examples were given of projects with donors each insisting on their own systems and procedures being implemented, leaving country partners with conflicting sets of instructions. This is consistent with the findings from the recent Ethiopia country programme evaluation, where IFAD has projects co-financed with the African Development Bank and the World Bank. While the concerned CPMs were not opposed to co-financing, in their view there needed to be agreement on a lead donor, charged with responsibility for supervision and implementation support and liaising with the counterparts on policy, operational and related issues. The likelihood is that the demand for donors to coordinate and co-finance their activities is greater in low income countries and Fragile States. The trade-offs between the desire for increased co-financing in such countries and the transaction costs which multiple donors can represent for weak managing institutions need to be carefully considered.

(b) Adaptation to changes in the context

15. To the extent possible the design of a project should reflect in-depth knowledge of the country context and a sense of realism as to implementation capacity and ability to adapt to change. As mentioned above, however, it is neither realistic nor efficient to build allowance for every eventuality into programme and project design The issue is rather how effective are the procedures in place to identify shifts in the risk profile, react in a timely fashion once a risk factor becomes a reality, and adjust design to the changed situation. Until recently, supervision of IFAD-funded projects was carried out by cooperating institutions, and it was often left for the mid-term review of the project to make the required adjustments. The IEE states (p.35) that "half of the projects reviewed by the IEE were redesigned at mid-term, many of them substantially." The shift by IFAD to own supervision and implementation support of projects, allows the institution to react more quickly to the evolution of the key variables in project management and not wait for a mid-term review to tackle problems that have emerged. Similarly, as mentioned, the establishment of country presence allows IFAD to gain a better understanding of the country context in general, and enables the Fund to identify risks and deal with them in a more timely manner during design and implementation.

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[8] The capacity problem appears mainly to concern fragile states. When the data on IFAD-funded projects in low income countries is split between Fragile States and others, the latter group (i.e. those with better CPIA or RDS scores, have projects impacts that are comparable with MICs.

Box 3. The relation between program design and supervision and implementation support: The Southern Region Cooperatives Development and Credit Project in Ethiopia

The project aimed to increase agricultural productivity and raise income levels of the rural poor through support to Service Cooperatives Development. It encompassed credit programs, veterinary services, rural roads, and general health programs, in addition to the core of developing cooperatives and creating income-generating activities in the country-side. The evaluation states that: “This was an ambitious and in hindsight an unrealistic goal. IFAD did not have sufficiently flexible instruments (e.g. direct supervision or field presence) which could have provided the kind of hands on assistance to the government which was required to implement such an ambitious project in this challenging environment”.

16. The quality (and quantity) of supervision and implementation support is widely viewed as a key factor in achieving satisfactory project impact in difficult environments. A recent World Bank internal study[9] states that “recent research shows that in Fragile States the amount of supervision and implementation support is critical to the achievement of development results.” IFAD’s recent move to undertake supervision and implementation support of its own projects is therefore an opportunity for the Fund to be able to deal better with the evolving risks of its projects, especially in Fragile States. However, some CPMs mentioned the need to allocate more time and resources to undertake supervision and implementation support.

17. **Conclusions.** IFAD’s business model was mainly designed to serve middle and low income developing countries**,** that lacked the resources needed to tackle problems of rural poverty, but had some of the capacity, that, appropriately strengthened, could implement projects to address rural poverty. The evidence suggests that the model is coming under increasing stress. A growing group of MICs no longer puts a high premium on resource transfers and is only willing to borrow from institutions like IFAD if resources are bundled together with knowledge that they perceive as adding value to their development efforts. IFAD is widely perceived as having acquired valuable experience in the area of rural poverty and this, together with perceptions that it is a flexible institution that does not come with its own agenda, should provide a good basis for a continuing partnership with MICs provided that IFAD can deepen its expertise and be seen as a significant source of knowledge transfer on rural poverty issues. At the other end of the development spectrum institutions like IFAD are being urged to increase their activities in Fragile States and are responding to this call. IFAD must be careful however, that this pressure to do more does not push incentives in the direction of bringing forward projects which are neither well-adapted nor ready for effective implementation. The evidence of the 2007 ARRI and the follow up analysis carried out for this note, shows, IFAD’s current business model is not entirely well suited to the needs of Fragile States. The limited capacity of these countries calls for intensive country knowledge, projects designed to be manageable within available capacity or to strengthen that capacity, and hands on support for implementation. The question here is whether the steps that IFAD has in train to increase country presence and own supervision with implementation support, will be sufficient to meet these needs.

18. A number of findings of this issues paper are relevant to these general conclusions.

- With regard to knowledge transfer to the MICs, IFAD has relied mainly on the COSOP with occasional knowledge products undertaken on an ad hoc basis within its Program Management Department. This note has not attempted to review IFAD’s knowledge work systematically or to interview MIC clients as to whether they perceive it as adequate, but it is not unreasonable to assume that with growing sophistication of MIC borrowers, for IFAD to remain relevant it will need to deepen its knowledge base and strengthen its capacity to transfer knowledge across countries.
- With regard to poor performing countries (essentially Fragile States) falling into the bottom two CPIA quintiles, the very low proportion of IFAD-supported projects with satisfactory impact is a cause for concern especially since IFAD is likely to increase its activities in this group of countries. A number of factors appear to be contributing to this:
  - IFAD’s *modus operandi* with its far greater reliance on the capacity of partner institutions whether Government or NGOs to design, prepare and implement projects, would seem to be particularly stressed in Fragile States where such capacity is weak.
  - IFAD’s supervision and implementation support seems light in Fragile States, as compared to the high levels of supervision in these countries by other IDIs.

[9] Strengthening the World Bank’s Rapid Response and Long-Term Engagement in Fragile States, March 30, 2007.

- IFAD's project design in fragile states often does not adequately reflect the reality of the situation on the ground. Objectives are over-ambitious. It is possible that the long check-list of sub-objectives against which IFAD measures project impact, pushes programs in the direction of complexity and breadth of focus, which while highly relevant for Fragile States is often beyond the capacity of their implementing agencies.
- Cofinancing appears to add to the complexity of projects in Fragile States, when cofinanciers insist on the use of their own procedures and systems during implementation.

19. **Issues for discussion**

- How can IFAD deepen its knowledge of rural poverty and increase its efforts to transfer knowledge of pro-poor innovative solutions across countries in order to remain relevant in the MICs?
- How can IFAD deepen its knowledge of the country context in which it operates?
- Do IFAD's internal reviews and peer review processes pay sufficient attention to the balance between complexity of project design and the capacity of partnering institutions in Fragile States?
- For projects in Fragile States, should IFAD do more to tailor its objectives and evaluation approaches to the limited capacity available by focusing its projects on a limited set of core objectives?
- Should IFAD limit its cofinancing arrangements for Fragile States to arrangements that provide for clear accountability for management and agreement on use of the procedures of one of the cofinancing institutions?
- Should IFAD tailor its supervision and implementation support more to country context, e.g. by increasing its supervision and implementation support efforts in Fragile States?
- How can IFAD improve its in-house knowledge sharing on operations in Fragile States?