Evaluation

IFAD
Enabling poor rural people
to overcome poverty

insights

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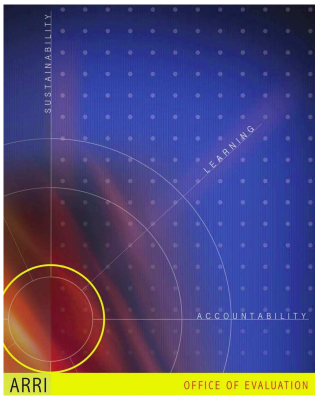
Country context and the impact of IFAD-funded activities



Insights based on the Issues Paper discussed during the Country Context learning workshop held in May 2008, in the context of the 2008 Annual Report on Results and Impact of IFAD Operations (ARRI).

Development organizations have long maintained the view that 'one size does not fit all' and that development approaches need to factor country context into operational policies and programmes. Differentiation has been modest. Only recently have operational approaches begun to differ by country category as a consequence of pressure from opposite directions. Firstly, development organizations have found themselves having to deal with a group of Middle-Income Countries (MICs) that, while valuing the knowledge that such organizations can provide, are not always willing to pay high transaction costs and interest rates to acquire it. As a result, some institutions, including IFAD, have been obliged to re-think and modify their approach to MICs. Secondly, the international community is becoming increasingly concerned that development organizations should also address the needs of Fragile States[1]. With the growing recognition that, because of their weak capacity and often lack of internal security, Fragile States require a different business model, almost all institutions have issued policy documents outlining new operational approaches to such states[2].

The issue of country context[3] initially arose out of analysis contained in the 2007 Annual Report on Results and Impact of IFAD Operations (ARRI). This indicated 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 differences in impact for MICs and Fragile States are characteristic of the operations of all multilateral development banks, there is a sizeable difference in the case of IFAD and thus a need to better understand the factors involved. The 2008 ARRI treated this topic in more detail and a chapter in the document is devoted to the issue of country context.

The following elements in country context are of particular importance in achieving the objectives of IFAD-funded projects and programmes:

- The 'rules of the game', that is, the political/social and economic environment in which the projects operate, such as governance, legal systems, the functioning of markets and their regulation, and so on;
- The physical environment, that is, climate, natural resource endowment, physical infrastructure;
- Social and human capital, that is, forms of social organization, social cohesion, education, gender issues, development of entrepreneurship, development of civil society;
- Organizational capacity, including the ability of 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.

In addition to analysing and factoring in the above conditions when dealing with country context, assumptions should be made also as to the evolution of these variables during the life of a project. Projects are based on the most likely path of evolution, but allowance is also made, by an analysis of risks in their design, for any divergence from original projections. Yet, since it is neither realistic nor efficient to attempt to protect against all risks ex ante, a major part of any adjustment to unexpected events is normally left to the process of project supervision and implementation support. However, it should be clear that less positive results and impact at project completion should not be attributed to a complex or volatile country context situation, that is, country context should be adequately factored at the time of a country strategy formulation and project design, including a comprehensive assessment of potential risks.

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

The first task here is to determine whether country context has been properly analysed and understood during project design. The analysis of conditions starts with the IFAD country strategic opportunities programme document (COSOP) that includes a brief account of IFAD-funded projects, but this makes for a very limited analysis of the factors that cause rural poverty. While in a number of cases project evaluations have concluded that weak design was the result of insufficient knowledge of country conditions, IFAD's increased country presence should help it gain a better understanding of country context. However, will this be sufficient in an environment where development organizations are often valued more for their knowledge than for their financial resources, especially in MICs? The recent World Bank evaluation of MICs found that such countries actively seek global knowledge tailored to country context, as corroborated by the findings of the recent IFAD country programme evaluations in Brazil and Mexico. IFAD needs to consider whether it is investing enough in acquiring and transferring such knowledge.

With regard to the contextual factors most relevant to project impact, the above-mentioned evaluations concluded that the key drivers of satisfactory impact in IFAD's operations are the *quality of project managers and executing institutions.* In the words of one country programme manager: "A good manager can rescue a project with a poor design, but a bad manager will not succeed even when the design is a good one".

A number of evaluations highlighted the importance of the relationship between *project complexity* and *managerial capacity*. The success of projects that tended to be overly complex, often with too many components and/or multiple managing institutions, was usually due to a strong managerial capacity not usually available in Fragile States. By contrast, relatively simple operations or operations with fewer components were easier to implement and supervise and tended to give better results.

(b) Adapting to changes in context

To the extent possible, project design should reflect an in-depth knowledge of country context, coupled with a realistic assessment of implementation capacity. As mentioned above, however, it is neither realistic nor efficient to build allowance for every eventuality into project/programme design. The issue is rather one of how effective existing procedures are in identifying shifts in the risk profile, in reacting in a timely manner once a risk factor becomes a reality, and in adjusting project design to changed situations.

Providing for effective supervision and implementation support is a key factor in achieving satisfactory project impact in difficult environments. According to a recent World Bank study[4], "recent research shows that in Fragile States the amount of supervision and implementation support is critical to the achievement of development results". The shift to direct supervision and implementation support of its projects, now positions IFAD in a better manner to react more rapidly to changes in key variables in project management rather than awaiting the findings of mid-term reviews before tackling problems. Similarly, a greater country presence will allow IFAD to gain a better understanding of country context and enable it to identify and deal with risks in a timelier manner.

IFAD's business model was designed mainly to serve middle- and low-income developing Member States that, while lacking financial resources, had a level of capacity which, if appropriately strengthened, might be used to implement projects to reduce rural poverty. However, a growing number of MICs no longer place a high premium on resource transfers only and are increasingly interested to borrow from institutions such as IFAD if resources are coupled with knowledge that may add value to their own development efforts. It is generally acknowledged that the Fund has acquired a wealth of valuable experience on rural poverty; this fact, together with its reputation for flexibility, should provide IFAD with a sound basis for maintaining partnerships with MICs. With regard to activities in Fragile States, care must be taken to ensure that the pressure to do more does not lead to projects that are neither well-adapted nor ready for effective implementation. The ARRI report demonstrated that IFAD's current business model is not entirely suited to the needs of Fragile States, the limited capacity of which calls for intensive country knowledge, for projects that can be managed with the capacity available, and for hands-on implementation support. The question is whether the steps taken by IFAD to increase its country presence, directly supervise its projects and provide implementation support, will be sufficient to meet these needs.

KEY FINDINGS

A number of the findings of the ARRI report are relevant to the following general conclusions:

- With regard to the transfer of knowledge to MICs, IFAD has mainly relied on the COSOP or on knowledge products undertaken on an ad hoc basis within the Programme Management Department. The present note makes no attempt to review IFAD's knowledge work on a systematic basis or to determine whether MIC clients consider such work to be adequate. However, it is not unreasonable to assume that, with the growing advancement of MIC borrowers, IFAD will need to deepen its knowledge base and strengthen its capacity to transfer knowledge across countries.
- With regard to poorly performing countries (essentially Fragile States), the small proportion of IFAD-supported projects with a satisfactory impact gives rise to concern, especially since the Fund is likely to step up activities in this particular group of countries. A number of factors appear to contribute to this: (i) IFAD's *modus operandi*, with its heavy reliance on the capacity of partner institutions (whether government or NGOs) to design, prepare and implement projects, would appear to be particularly challenged in Fragile States, where capacity is weak; (ii) IFAD's supervision and implementation support is somewhat lacking in Fragile States compared with the levels of supervision provided by other development organizations in such countries; (iii) often, IFAD's design of projects for Fragile States does not adequately reflect the reality of the situation on the ground and objectives tend to be over-ambitious. It is possible that the long checklist of sub-objectives against which IFAD measures project impact and pushes programmes in the direction of complexity and breadth of focus, is often beyond the capacity of the implementing agencies involved; and (iv) cofinancing appears to add to the complexity of projects in Fragile States, especially if cofinanciers insist on their own procurement procedures and systems being followed during implementation.

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1 IFAD defines Fragile States 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.

2 This expanded focus on Fragile States runs counter to the performance-based allocation systems that most international financial institutions, including IFAD, have set up for concessional funding.

3 IFAD defines "country context" as the initial and evolving conditions in which a project or country programme is prepared, implemented and evaluated. It also comprises conditions relating specifically to the rural sector.

4 Strengthening the World Bank's Rapid Response and Long-Term Engagement in Fragile States, March 2007.