

issues paper

THE 2010 ANNUAL REPORT ON RESULTS AND IMPACT OF IFAD OPERATIONS (ARRI)

EFFICIENCY

INTRODUCTION

1. **Background.** Since 2002, the efficiency of IFAD operations has been the lowest performing criteria in evaluations undertaken independently by the Office of Evaluation (IOE). The 2010 Annual Report on Results and Impact of IFAD Operations (ARRI) reveals that only around 59 per cent of projects evaluated in 2009 had a moderately satisfactory or better performance in terms of efficiency. This is low compared to 100 per cent for relevance and 65 percent for effectiveness. The 2009 Report on IFAD's Development Effectiveness reveals a broadly similar picture about the efficiency of IFAD-funded operations.

2. The independent external evaluation of IFAD (IEE, 2005) found that 45 per cent of the projects evaluated were moderately satisfactory or better in terms of efficiency. It could therefore be argued that some progress has been made since then, even though the IEE raised attention to limitations in a number of key IFAD corporate business processes, *inter-alia*, such as country strategy formulation and project life cycle, human resources management, knowledge management, and scaling up, which impinge on the efficiency of IFAD-funded projects.

3. In light of the above, there is growing interest amongst the IFAD Management and its governing bodies to understand more thoroughly the causes of relatively weaker performance in terms of efficiency. Therefore, the Board decided that the 2010 ARRI should focus exclusively on only one learning theme, namely the efficiency of IFAD operations. It is also timely to analyse the issue of efficiency given the economic and financial crisis and the ensuing budget problems affecting the majority of IFAD member states countries (both donors as well as borrowers).

4. However, given the intrinsic link between the efficiency of IFAD-funded operations and key corporate business processes, this Issues Paper is a first attempt by IOE to analyse in a systematic and focused manner the efficiency of IFAD-funded operations and the most important corporate business processes affecting them. As one example of this link, the timeliness at which withdrawal applications are processed by IFAD's Financial Services Division impinges on the availability of resources for the implementation of IFAD-funded projects. In fact, there are numerous similar examples that could be used to illustrate the link. Finally, the fact that the Management and Executive Board alike are concerned about IFAD's overall institutional efficiency is another key reason for treating both project-level efficiency and the efficiency of corporate business processes.

5. **Objectives.** The main objective of this Issues Paper is to allow for a collective reflection and exchanges among IFAD Management and staff, as well as the Fund's governing bodies on: (i) the broad underlying causes of weak efficiency of both IFAD-financed projects and key corporate business processes; and (ii) the key areas that need priority attention in the future to improve the Fund's efficiency in general. As an ancillary objective, this Issues Paper also serves as an opportunity to identify topics that deserve in-depth treatment during the corporate-level evaluation on efficiency that IOE plans to conduct in 2011.

6. **Learning workshop.** The Issues Paper will serve as the main background document for a learning workshop on efficiency among IFAD Management and staff, to be held in September 2010. Based on the Issues Paper and building on the inputs from the workshop, IOE will prepare a dedicated chapter on

efficiency for inclusion in the 2010 ARRI. However, in light of the relatively limited time and resources available, the Issues Paper and the planned workshop on efficiency offer only an introduction to the topic, and do not aim to cover the breadth and depth of issues that merit to be analysed.

7. **Process.** This paper draws on bilateral discussions with representatives of the IFAD Management and staff. In addition, numerous IOE evaluation reports prepared since 2002 and project completion reports since 2006 were reviewed, as well as recent Quality Enhancement and Quality Assurance documents, COSOPs and selected corporate documents (e.g., the Report on IFAD's Development Effectiveness, the Fund's annual Programme of Work and Budget, etc.). Selected annual and evaluation reports from other development agencies were also examined to understand how other multilateral and bilateral agencies deal with the efficiency issue. In particular, IOE held discussions with the evaluation department of the German Ministry of Economic Development and Co-operation (BMZ), which is currently undertaking a study on the methods for evaluating aid efficiency.¹

8. **Structure.** This paper includes five further sections. Section B provides an overview of definition and measurement approaches to assessing project efficiency. Section C treats the efficiency of IFAD-funded operations, whereas Section D contains a discussion on selected corporate business processes and their implications for the efficiency of IFAD-funded projects. Section E provides a snapshot of evaluation findings on efficiency from other development organizations. Finally, Section F includes a set of proposed guiding questions for the planned workshop in September 2010.

DEFINITION AND MEASUREMENT OF PROJECT EFFICIENCY

9. Efficiency can be defined as *getting the most out of the resources used*.² The Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC) defines efficiency as '*a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to result*'. IOE also uses the same definition in undertaking evaluations (see table 1 in the IOE Evaluation Manual).³ The key concept is a comparison of resources used to generate development results. The resources can be time or expertise, but are most commonly financial or economic.⁴ Results can be outputs or impacts, but efficiency is also sometimes assessed on the basis of outreach and activities (e.g., cost per training or cost per beneficiaries).

10. For sake of clarity, it is important upfront to clarify how efficiency is different from some related concepts including effectiveness, cost-effectiveness, and cost-benefit analysis. Effectiveness is "the extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance" (see table 1 in the OE Evaluation Manual). Therefore, compared to effectiveness that aims to analyse the achievement of an operation's development objectives, the analysis of efficiency entails assessing the resources used and results achieved.

11. Cost-effectiveness is a concept that focuses on costs: a set of actions is "cost-effective" if it minimizes costs in achieving a stated goal. Thus there would not exist an alternative set of actions that achieves the same stated goal at less total cost. Efficiency in contrast is a broader concept focusing on both benefits and costs: a set of actions is "efficient" if it maximizes total net benefits (where "net benefits" are benefits minus costs).

12. Cost-benefit analysis *is a method of reaching economic decisions by comparing the costs of doing something with its benefits*.⁵ More specifically, cost-benefit analysis is a *basic tool of economic analysis in which the actual and potential costs (both private and social) of various economic decisions are weighed against actual and potential private and social benefits. Those decisions or projects yielding the highest benefit/cost ration are usually thought to be most desirable*.⁶

¹ See Tools and Methods for Evaluating Aid Efficiency, Inception Report. Palenberg M. (2009).

² See Economics A-Z, by The Economist.

³ http://www.ifad.org/evaluation/process_methodology/index.htm.

⁴ Economic analysis uses 'shadow' prices to adjust market prices so that they better reflect the real resource costs to society.

⁵ Definition taken from Economics A-Z, by The Economist.

⁶ Economic Development in the Third World (4th edition) by Michael Todaro.

13. The assessment of efficiency requires the availability of reasonably accurate and comparable data for both sides of the ratio - the amount of resources (time, costs, etc.) and the amount of the results (outputs, impacts, etc.), and a clear linkage between the resources side and the results side. Cost-benefit analysis using internal rates of return⁷ are calculated, where possible and appropriate, as one indicator in assessing project efficiency in IOE evaluations. Where economic returns cannot be estimated, project efficiency is ascertained through other proxy indicators, such as loan costs per beneficiary, administrative costs per beneficiary, and cost ratio of inputs to outputs. For instance, in the case of rural finance, efficiency indicators can be obtained through the Microfinance Information Exchange (MIX) initiative. Timescale (i.e. time from loan approval date to effectiveness date; extension of closing date, etc) and disbursement rates are also considered. In making a final assessment of efficiency, the Evaluation Manual also requires IOE evaluations to benchmark the efficiency of IFAD operations with similar activities/projects funded by the government or other development actors in the same country and/or geographic region.

14. Therefore, independent evaluations at IFAD use a mix of methods to assess efficiency of the operations it finances. The June 2006 Project Completion Report Guidelines issued by the Programme Management Department also make provision for the assessment of efficiency. Each independent evaluation addresses a series of questions which are customized depending on the context of application. The key questions used as a basis to assess efficiency are the following:

- (i) What are the costs of investments to develop specific project outputs (e.g. what is the cost of constructing one kilometre of rural road)? The quality of works/supplies needs to be fully (and explicitly) recognized for such input/output comparisons.
- (ii) Is the cost ratio of inputs to outputs comparable to local, national or regional benchmarks?
- (iii) What are the loan costs per beneficiary (both at the time of appraisal and at the time of evaluation) and how do they compare to other IFAD-funded operations (or those of other donors) in the same countries and/or other countries?
- (iv) How does the economic rate of return at evaluation compare with project design?
- (v) What are the administrative costs⁸ per beneficiary and how do they compare with other IFAD-funded operations (or those of other donors) in the same country or other countries?
- (vi) How much time did it take for the loan to be effective, and how does it compare with other loans in the same country and region?
- (vii) By how much was the original closing date extended, and what were the additional administrative costs that were incurred during the extension period?
- (viii) What factors help account for project efficiency performance?

15. There are a number of issues related to the assessment of efficiency that are worth highlighting. First, the analysis of efficiency often focuses on results at the lower level of the results chain (e.g., inputs/outputs), due to data limitation for higher level results. For example, information on design and supervision costs, and to a lesser extent cost per output and per beneficiary, is often available. The cost required to push people out of poverty is much less so. Even when information is available, attributing outcomes to costs is not always straight forward. This brings with it the danger of making efficiency analysis and judgements based on an incomplete appreciation of the actual costs for achieving the final expected results (e.g., improvements in beneficiary incomes). Second, one of the most commonly used indicators, the cost per beneficiary, requires a hypothesis that all costs and all beneficiaries targeted by a given development intervention are treated equally regardless of the activities which the beneficiaries have been involved in, the duration of the intervention and the poverty reduction impact. Third, key fixed costs (e.g. overall management costs) cannot be put in relationship with a specific result, hence creating difficulties in ascertaining the actual efficiency performance of a given development intervention.

16. The review of evaluation and project completion reports reveal that IFAD uses a mix of qualitative and quantitative methods to assess efficiency, depending on the type of project and availability of data. In general, however, the reports examined illustrate improvements over time in the assessment of efficiency. They also highlight some of the remaining challenges that continue to constraint the measurement of project efficiency, for example, the lack of data on actual results and costs incurred, unavailability of reliable data from comparable institutions (i.e., government or other development agencies) for benchmarking the efficiency of IFAD-financed activities, as well as lack of clarity among staff and consultants on the concept of efficiency in general.

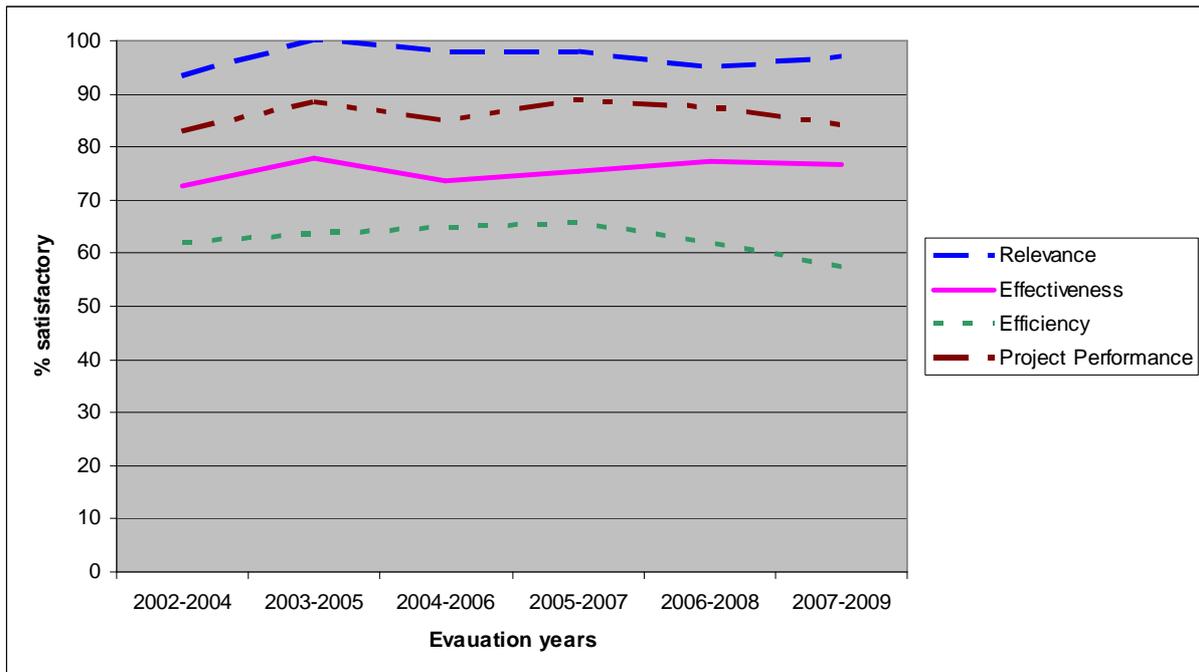
⁷ Internal rate of return is a way to measure economic success. It is calculated by expressing the economic gain (usually profit) as a percentage of the capital used to produce it. See Economics A-Z by The Economist.

⁸ Including costs for supervision and implementation support, project management and monitoring and evaluation (which are included as part of the loan), Mid-term review, project redesign (if applicable), and so on.

EFFICIENCY OF IFAD-FUNDED OPERATIONS

17. The figure below shows data on project performance⁹ from independent evaluations done since 2002. Based on around 120 project evaluations, it reveals that efficiency is the least performing evaluation criteria since 2002 and there are no improvements over time. As mentioned earlier, data from project completion reports as contained in the Report on IFAD's Development Effectiveness reveal a similar picture. The reduction in efficiency scores in 2007-09 may however partly be a reflection of a more rigorous assessment in independent evaluations, following the introduction of the Evaluation Manual¹⁰ as well as the dedicated training for IOE staff on efficiency analysis conducted in the beginning of 2007.

The performance of IFAD-financed operations: three year moving averages



18. Based on a review of past ARRIs and other reports as well as discussions with IFAD staff, a number of critical factors can be highlighted that are determining for good or less good performance in efficiency. Many of these are common factors associated with well performing projects: clear objectives; appropriate, simple and focused designs; high quality partners and implementing agencies; effective project management including well functioning monitoring and evaluation; rapid decision-making; and good administration. According to the recent India Country Programme Evaluation (CPE), the shift to direct supervision and implementation support with an enhanced role for the IFAD country office has led to reduced supervision costs and increased efficiency.

19. There are also other factors that contribute to positive efficiency. Many of these are associated with service provision and the construction of local infrastructure. For instance, the Nigeria CPE found the costs of rural infrastructure construction to be lower and often of higher quality with wider community participation, as compared to infrastructure constructed only by contractors.¹¹ There are mixed experiences with project management units (PMUs). In some cases, the location of PMUs within existing government structures contributed to efficiency. In other cases, such as reported in the Mozambique CPE, separate dedicated PMUs were more efficient than projects that were fully integrated within national institutions.¹² Using

⁹ Project performance is a composition of three evaluation criteria: relevance, effectiveness and efficiency.

¹⁰ Even though the Manual was formally published in 2009, it was already being applied in 2008.

¹¹ An ADB evaluation concluded that cash contributions from end-users should be large enough (>33 per cent) to provide end-users with real power to hold providers accountable and with strong enough incentives to demand least-cost designs and high quality construction. Effectiveness of Participatory Approaches. ADB (2004) p.29.

¹² World Bank and ADB evaluations tend to confirm the efficiency benefits of separate PMUs, but recognize that these parallel units tend to hinder, or at least do not help with, government capacity building and sustainability. Annual Review of Development Effectiveness. WB (2005). Annual Review of Portfolio Performance. ADB (2004).

competitive bidding processes to identify contractors for project service delivery, instead of having inter-ministerial committees lead the selection, was found to have favourable effects on project efficiency in Colombia.

20. Another evaluation finding is that the choice of partner institutions and the overall institutional arrangements are critical towards ensuring good efficiency. The Argentina CPE illustrated that the complexity of institutional arrangements involving federal and provincial authorities caused delays in loan effectiveness, flow of funds and project execution. Limited ownership in some of the participating provinces, due to inadequate consultation processes during design, was one of the determining factors in Argentina.

21. Numerous evaluations including the joint IFAD-African Development Bank (AfDB) evaluation on agriculture and rural development in Africa have shown that projects with multiple components including wide geographic coverage have contributed to higher costs, especially in terms of supervision and implementation support, project implementation and co-ordination, and monitoring and evaluation. Delayed recruitment and rapid staff turn over within PMUs (the latter often caused by government's own policies related to rotation of human resources) are other causes of inefficiencies.

22. The quality and detail of project designs have implications for efficiency. Unlike some other international financial institutions (IFIs), IFAD's design process is relatively quick and low cost, and in that sense is efficient. Many projects are rightly designed as 'process' rather than 'blueprint' projects. However, the downside of such an approach is that projects are often less ready when approved and have longer start-up and disbursement delays. This makes projects less operationally efficient once approved, and carries with it the risk that projects will be less efficient if the time and resources spent on the design has resulted in deficiencies.

23. As mentioned above, both direct supervision and implementation support as well as country presence are two further fundamental factors that contribute to better efficiency. Evaluations consistently note that direct supervision allows for IFAD to take more timely decisions to ensure smooth execution, whereas country presence enables IFAD to constantly monitor implementation progress and introduce remedial measure needed. The corporate level evaluations of the Direct Supervision Pilot Programme (2005) and Field Presence Pilot Programme (2007) found that these processes contribute to better implementation performance in general, for example, in terms of time taken from loan approval to loan effectiveness, disbursements, preparation of audit report, and number of extensions needed to the project completion date.

24. Cofinancing is an important instrument for wider impact on rural poverty, but at times as shown by the Ethiopia CPE can lead to low project efficiency. In particular, AfDB and IFAD did not harmonise their procurement procedures in one of the cofinanced projects in Ethiopia, creating difficulties for project management and delays in implementation.

25. The following table provides a summary of some of the major factors that lead to good and less good efficiency. One of the aims of the planned learning workshop on the topic is to supplement these factors based on the experience and inputs of the IFAD Management and staff.

Some key factors that contribute to positive or negative efficiency

Factors that contribute to positive efficiency

- Clear objectives; appropriate, simple and focused designs; high quality partners and implementing agencies; effective project management including well-functioning monitoring and evaluation; rapid decision-making; and good administration.
- Wider community participation in small infrastructure development and their operation and maintenance can lead to lower costs as compared to infrastructure constructed only by contractors.
- The location of PMUs within existing government structures contributed to efficiency. In other cases, such as reported in the Mozambique CPE, separate dedicated PMUs were more efficient than projects that were fully integrated within national institutions.¹³
- Using competitive bidding processes to identify contractors for project service delivery, instead of having inter-ministerial committees lead the selection, can have favourable effects on project efficiency.
- Choice of partner institutions and the overall institutional arrangements are another critical factor.
- Direct supervision and implementation support, and country presence.

Factors that contribute to negative efficiency

- Projects with multiple components, including wide geographic coverage have contributed to higher costs.
- Delayed recruitment and rapid staff turn over within PMUs.
- Projects that are 'under-designed' at entry can lead to higher costs.
- Cofinancing can add to complexity in implementation and delays especially, for example, if procurement systems are not harmonised upfront.

CORPORATE BUSINESS PROCESSES AND THEIR IMPLICATIONS FOR PROJECT EFFICIENCY

26. As mentioned earlier, the efficiency of IFAD's corporate business processes, including the corporate management decision-making as well as governance architecture affects the efficiency of projects financed by IFAD. The aim of this section therefore is to identify and provide an overview of selected key corporate business processes that affect the efficiency of IFAD-financed operations, in one way or another. The below and other issues identified during the workshop on the topic will be covered in depth during the corporate-level evaluation on efficiency planned in 2011.

27. It is worth underlining that the efficiency of an organization's business processes and systems is a major determinant of overall institutional efficiency. For example, the number of steps and processes required to issue a consultancy contract may be disproportionately high and create unnecessary administrative costs that could otherwise be avoided. The IEE in 2005 made a first attempt to analyse, even though in a somewhat incomplete manner, IFAD's corporate efficiency. It found that "Despite apparent limitations imposed by the zero real growth budget constraint, demands from IFAD V and VI led to an increase of 43 per cent in both staff and consultant inputs between 1994 and 2003. At the same time the numbers of loans per year remained fairly static resulting in a fall in the Fund's operating efficiency". Other evaluations, such as the evaluation of IFAD's Regional Strategy for Asia and the Pacific (2006), and the joint evaluation with the AfDB on agriculture and rural development in Africa (2009) also exposed

¹³ World Bank and ADB evaluations tend to confirm the efficiency benefits of separate PMUs, but recognize that these parallel units tend to hinder, or at least do not help with, government capacity building and sustainability. Annual Review of Development Effectiveness. WB (2005). Annual Review of Portfolio Performance. ADB (2004).

limitations, *inter-alia*, in corporate business processes that affected efficiency of operations in the respective regions.

28. In order to restrain growth in corporate overheads, the IFAD Board decided to introduce an institutional efficiency ratio in 2005. The ratio is calculated by determining the percentage of IFAD's annual administrative budget in relation to its programme of work. It was decided that the percentage should not exceed 17.1 per cent, and the Fund was required to work towards reducing the ratio overtime. In spite of increases in absolute terms in the programme of work and the administrative budget since 2005, the efficiency ratio has been diminishing consistently and is expected to be around 14.4 per cent in 2011, which is quite close to the 2012 target of 13.5 percent adopted by the Board within the context of the corporate results measurement framework.

29. In fact, it may be useful to highlight that in 2011 IFAD proposes to support approximately US\$2.5 billion in new commitments to smallholder development, a major boost to achievement of the first Millennium Development Goal by 2015. These indicative commitments include US\$1 billion in loans and grants from IFAD's resources, approximately US\$0.5 billion in cofinancing directly managed and supervised by IFAD, and US\$1 billion in regular loan cofinancing. The Management calculates that a broader measure of efficiency that includes external resources directly managed and supervised by IFAD, and the estimated management fees for such resources, is projected at approximately 10 per cent.

30. In any case, the limitation of this ratio is that it compares planned administrative expenses with the planned programme of work. Some other measures could include: actual operating expenses/actual disbursements, actual operating expenses/total current portfolio value. Over the period 2003 to 2008, the former has remained fairly constant at 27-30 per cent, although more recent statistics show improvements.

31. IFAD's efficiency at the corporate level also needs to be put into perspective in relation with the efficiency of other comparable development organizations. However, benchmarking IFAD against other IFIs or development agencies is fraught with problems. The few attempts to do this have generated controversial results, not least because they concluded that IFAD was relatively inefficient compared with bilateral agencies and other IFIs, but better than most UN agencies.¹⁴ The problem with this and other external benchmarking is the difficulty of comparing like with like. Agencies account for administrative costs in different ways, and it is difficult to allow, for example, for the diseconomies of scale encountered by IFAD compared with other IFIs and the additional costs imposed by its particular mandate and its status as a specialized agency of the United Nations. Also, it should be recalled that the Fund was established primarily as an institution to provide financing for projects designed by other institutions. It was not allowed by the Agreement Establishing IFAD to undertake direct supervision, nor was it expected to have country presence or get involved in policy dialogue. However, in recent years, there has been a radical shift in its operating model, which has increasingly established IFAD as a full-fledged development agency that finances investment projects and programmes, conducts its own supervision, is involved in policy processes, and has presence in numerous member states. The recent changes imply steep learning curve for the institution and resultant one-time 'entry costs'. These and other factors need to be considered in any benchmarking of efficiency between IFAD and other multilateral or bilateral aid agencies.

32. Institutional efficiency is also a factor of corporate business processes that have been put in place and their relative efficiency. Corporate business processes that impinge most directly on project efficiency include, *inter-alia*, human resources management including consultants' management, loan administration including processing of withdrawal applications, direct supervision and implementation support, country presence, quality enhancement and quality assurance, legal processes, information and communication technologies, governing body processes, and management decision-making.

33. The Management of IFAD overall work force is critical. One key issue in this area relates to performance management. In this regard, although IFAD has a well defined annual performance evaluation system for staff, accountability mechanisms and incentives are not always clearly defined. This affects institutional efficiency. For example, staff may not adequately implement corporate policies (e.g., on rural finance) in new COSOPs or projects in the first instance, but following review during the quality enhancement and quality assurance processes may need to invest more resources and time to enhance the corresponding COSOP or project design before they are deemed ready for Board submission. In fact, apart from job satisfaction and appreciation voiced by colleagues, there are virtually no material incentives for higher performance, for example, such as annual awards to staff for the best COSOP of project design.

¹⁴ Where Does the Money Go? Best and Worst Practices in Foreign Aid. Easterly, W. and Pfitze, T. (2008). Fixing Failed Foreign Aid: Can Agency Practices Improve? Williamson, C. (p. 13).

This form of incentive structure creates an environment of unhealthy competition, fosters a silos culture and hampers knowledge management, and in some cases, even leads to demoralization among staff. In terms of accountability, while the annual performance evaluation system offers the possibility to hold staff accountable against their individual objectives set at the beginning of the year, there are no real material sanctions for non- or low performance.

34. The performance appraisal system for consultants is less rigorous and does not necessarily inform decisions in the selection of consultants. This can often lead to re-hiring of consultants whose past performance was only partly successful or worse. Furthermore the entire gamut of consultants management entails many steps that are marked by inefficiencies, including the low ceiling of daily fees that often prevents IFAD to acquire the necessary expertise, standard contract types that do not allow for insertion of specific clauses that may be warranted in certain situations, and severe delays in processing of travel expense reports and final payments. In addition, more generally related to human resources management, rules and guidelines are not always consistently articulated by the human resources division, thus creating unnecessary inefficiencies in workforce management.

35. Another manifestation of constrained corporate efficiency in terms of human resources is the way in which issues related to country presence officers have been addressed. Even in those cases where country presence officers have fixed-term contracts through other development agencies, there have been concerns about their integration into IFAD's overall work force, for instance, in terms of access to corporate systems and training courses, delegation of authority, oversight and coaching, as well as opportunities for rotation and career advancement. The concerns are exacerbated in the case of country presence officers on consultancy contracts, for whom there are also other concerns related to incentives and job stability. However, in this regard, IFAD is now starting to provide more secure contracts directly to national country presence officers, which was a recommendation of the corporate level evaluation on the Field Presence Pilot Programme in 2007.

36. Loan administration is another area that affects project efficiency. It is fair to underline that until recently this function was largely carried out by co-operating institutions, and IFAD did not have to build much in-house expertise in the area. With the approval of the Direct Supervision and Implementation Support Policy, IFAD has had to internalise the loan administration function, which includes processing of withdrawal applications after they have been cleared by the concerned regional division, making disbursements to replenish project special accounts, as well as provide the required training at start-up to project staff in IFAD financial and procurement rules and procedures. Discussions with staff at headquarters and evaluations reveal that IFAD's capacity and expertise in loan administration need to be reconsidered, so that projects can be implemented without disruptions due to lack of timely resources or insufficient training and backstopping on loan administration issues. In fact, given direct supervision responsibilities and IFAD's relatively limited capacity, some regional divisions have recruited dedicated officers to streamline the loan administration process, whereas another division has created an office in the corresponding region to deal with loan administration matters. In sum, the issue of loan administration in the broader sense is likely to become even more critical especially with an expanding programme of work in the coming years and therefore requires urgent attention.

37. As alluded to in the preceding paragraph, IFAD has witnessed a paradigm shift in its operating model in terms of supervision, which was previously done by cooperating institutions and now is conducted in almost all cases directly by IFAD. In addition to loan administration issues, direct supervision and implementation support has far reaching implications on project efficiency. There are numerous factors that need examination in detail, which is beyond the scope of this Issues Paper. However, one thing can be stated with some degree of confidence. That is, though there has been a slight increase in professional staff within the Programme Management Department, which is responsible for direct supervision and implementation support, rough estimates indicate that the increase is not at all commensurate with the exponential increase in the past few years and expected increase in the near future in the Fund's programme of work of IFAD. This is creating unsustainable work load levels and has consequences for quality of the supervision process. This is recognized in the High-level preview of IFAD's 2011 results-based programme of work and administrative and capital budgets, which includes a very significant proposed increase in the results cluster number one on country programme development and implementation.

38. Other areas that deserve to be raised, but require further analysis relate to governance processes (e.g., the role of the Board, for example, in the approval of policies, projects and grants as well as requests for annual reports on different topics), the contribution of legal services in the project life cycle (e.g., in terms of their contribution towards loan negotiations and approval of loan amendments during implementation), information and communication technologies and management decision-making, as they all have

implications for corporate and project efficiency. As a prelude to the type of issues that could be considered, for example in terms of management decision-making, preliminary analysis reveals that country programme managers (CPMs) in one division manage an average of 50 per cent more projects (often of more or less the same magnitude and complexity) than CPMs in another division. Six CPMs manage more than 10 projects each, while eight CPMs manage three or fewer projects each. These variations in the allocation of human resources warrant further examination. It is therefore proposed that these and other related issues be analysed in the corporate level evaluation on efficiency in 2011.

EVALUATION FINDINGS ON EFFICIENCY FROM OTHER ORGANIZATIONS

39. A number of reports from other agencies have identified weaknesses in the way the efficiency criterion is assessed. An Inter-American Development Bank (IADB) review of country strategies found that the absence of a clear definition of the concept of efficiency made its usage 'uninformative'.¹⁵ A review of 25 United Nations Development Programme (UNDP) evaluations found that in 40 per cent there was no efficiency assessment, and in a further 40 per cent the assessment was rated as poor or very poor.¹⁶ A review of 34 Swedish International Development Cooperation Agency (SIDA) evaluations concluded that only 21 per cent considered efficiency sufficiently. It commented as follows:

...very few provided a systematic assessment of the value of the benefits (outputs, outcomes, impacts) of the evaluated intervention in relation to the costs of producing them. The fact that questions about efficiency are technically demanding is probably one of the main reasons for the lack of competent efficiency assessments in the sample reports ... Assessments of costs in relation to outcomes or impacts, which tend to be more complex, are less common.¹⁷

40. There has been a more general decline in the use of cost-benefit analysis (CBA) in both appraisals and evaluation. A recent World Bank study has found that the percentage of investment operations that contain an estimate of the economic return has declined from nearly 70 per cent in the 1970s to approximately 30 per cent in the early 2000s. The World Bank Annual Review of Development Effectiveness (2009) commented that economic CBA had become a 'dormant subject'. An IADB review found that only 8 per cent of projects with CBA achieved a high score for the quality of the economic analysis.¹⁸ While part of this decline in the priority attached to CBA may be traced to changes in the type of aid, this only explains part of the decline.

41. Unsurprisingly, this weak focus on efficiency is reflected in the very limited treatment in the evaluation literature. While all IFIs use efficiency as one of the main OECD/DAC evaluation criteria, there is very little published data on project efficiency. Data has only been found for the Asian Development Bank (ADB) (59 per cent efficient or highly efficient)¹⁹ and the AfDB (50 per cent moderately efficient or better). No specific evaluations on efficiency have been found so far.

42. Most of the discussion of efficiency in annual reports relates to corporate efficiency, with the ratio between administrative expenses and disbursements or approvals, and improvements in this over time, seen as a key indicator. OECD/DAC Peer Reviews highlight the operational efficiency measures taken by bilateral agencies in recent years. A common approach is to reduce administrative costs; implement a smaller number of larger projects; shift to programme and budget support; concentrate on a smaller number of countries; and relocate all or part of headquarters staff to a cheaper location. While not focusing on efficiency directly, the net effect of these changes – together with the increased focus on development results and the Paris/Accra agendas – will be to improve development efficiency of the agencies concerned.

43. There is one further issue that deserves reflection, something which is only marginally covered in both IFAD documents and in other organizations, which related to the efficiency of borrowing countries own systems and procedures related to development planning, resource allocation, project implementation, and

¹⁵ Report on the evaluability of country strategies. IADB (2005).

¹⁶ Strengthening the Results-Oriented in Sweden's Engagement in Multilateral Development Cooperation. An evaluation of UNDP's country level evaluation activities. SADEV REPORT (2008).

¹⁷ Are SIDA evaluations good enough? Sida studies in evaluation (2008).

¹⁸ Evaluation of the quality of economic analysis for projects approved 1997-2006. IADB (2008).

¹⁹ Annual Evaluation Review 2009. ADB (2009) Table A.10.3.

monitoring, evaluation and reporting. This is extremely important, as they have an important bearing on the efficiency of operations in multilateral and bilateral aid organizations. This observation is consistent with a major evaluation finding that the borrowing government's own performance, in general, is one of the most critical factors in the fight against rural poverty efforts.

KEY QUESTIONS

44. The below are three questions for discussion at the learning workshop:

- What are the main factors affecting the efficiency of operations (projects and country strategies) and what priority measures need to be introduced to improve performance?
- Which corporate processes need further streamlining to improve efficiency and discuss actions that could be deployed to enhance them.
- Identify topic that should be prioritised in the planned corporate-level evaluation on efficiency by IOE in 2011.