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Report to the Chairman, Committee on Foreign Affairs, House of Representatives

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MULTILATERAL FOREIGN AID

U.S. Participation in the International Fund for Agricultural Development

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GAO United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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September 24, 1993

The Honorable Lee H. Hamilton
Chairman, Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

This report on U.S. participation in the International Fund for Agricultural Development (IFAD) was requested by Representative Tony P. Hall, former Chairman of the House Select Committee on Hunger. Because the matters discussed in this report are within the purview of the Committee on Foreign Affairs, Representative Hall asked that the report be addressed to you.

We are sending copies of this report to the President, IFAD, the Secretary of State, the Administrator of the Agency for International Development, and other appropriate congressional committees. We will also make copies available to other interested parties upon request.

This report was prepared under the direction of Harold J. Johnson, Director of International Affairs, who can be reached on (202) 512-4128 if you or your staff have questions on this report. Other major contributors are listed in appendix VI.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

The International Fund for Agricultural Development (IFAD) finances projects designed to promote agricultural self-sufficiency in food deficit countries. The assistance is to be based on the countries' poverty levels and the need to increase food production and nutritional levels of the poorest populations, with an emphasis on assistance to small and landless farmers. From IFAD's establishment in 1977 through December 1992, the United States provided $552.4 million to IFAD.

The former Chairman of the House Select Committee on Hunger asked GAO to review U.S. participation in IFAD and its operations and management. GAO's objectives were to (1) evaluate how IFAD has conducted its operations, (2) evaluate the agency's funding outlook, (3) determine whether projects are experiencing any problems, and (4) review the relationship between IFAD and the U.S. Agency for International Development (AID).

Background

IFAD, headquartered in Rome, has 147 member nations, including both developed and developing countries. The agency's Governing Council sets overall policy and delegates most of its authority to an 18-member Executive Board, which oversees the agency's operations and approves loans for projects. Voting power on the Governing Council and Executive Board is divided equally among (1) member countries of the Organization for Economic Cooperation and Development (OECD), (2) member countries of the Organization of Petroleum Exporting Countries (OPEC), and (3) the group of developing countries. The United States is the largest single contributor to IFAD and has the only permanent seat on the Executive Board. From 1977 through 1991, IFAD provided loans and grants totaling $3.5 billion to 94 countries.

AID is the lead agency for IFAD in the United States; however, IFAD loan proposals are reviewed by an interagency Working Group on Multilateral Assistance, which also reviews loan proposals from the multilateral development banks, such as the World Bank. Member agencies include AID; the Departments of State, Treasury, and Agriculture; the Office of Management and Budget; and other U.S. government agencies.

Results in Brief

The scope of IFAD's role in project assistance has changed significantly since its early years. The U.S. government agreed to participate in IFAD with the understanding that IFAD would (1) have limited involvement in project design and implementation; (2) serve basically as a funding agency, selecting projects developed by other multilateral agencies; (3) rely on the multilateral development institutions to appraise and supervise the implementation of its projects; and (4) maintain a small staff and limited administrative overhead expenses. Today, IFAD develops its own projects, and its expanded staff is involved in all phases of the project cycle. IFAD officials believe the expansion in the agency's role was necessary to ensure that projects met the agency's objectives. However, the expansion increased administrative and operating expenses and represented a significant departure from IFAD's original operating structure.

IFAD faces uncertainty over its funding in the years ahead. Although OECD and OPEC members initially agreed to donate roughly equivalent amounts to IFAD, donations from OPEC countries have fallen off sharply over the years. If this trend continues, OECD countries will have to pick up a larger share of the funding burden in order to maintain IFAD activities. It is uncertain whether they will be willing to do this.

GAO's interviews with project recipients and site visits conducted in five countries indicate that the groups targeted for aid have received some benefit from IFAD's assistance. Projects financed by IFAD are similar to some projects financed by other multilateral development organizations in that they focus on poverty alleviation and rural development in the agricultural sector among the poorest populations in poor countries. However, some IFAD projects have experienced problems that raise questions about their sustainability without continuing external financing.

AID has had minimal involvement with IFAD projects at the field level. AID mission officials said the focus of IFAD and AID assistance differs and that AID staff members are too busy with other priorities to be concerned with IFAD projects. However, AID officials in Washington and officials at the U.S. mission to IFAD in Rome said missions should give more attention to IFAD project proposals to ensure that these projects will complement those of AID.

Given the significant changes in IFAD's operations, the funding uncertainties on the part of other members, and the lack of AID involvement in monitoring IFAD field activities, GAO believes continued U.S. support for IFAD warrants reassessment.

Principal Findings

IFAD's Role in Project Assistance Has Changed

IFAD's charter provides considerable latitude with respect to its methods of operation and how it selects projects and programs to finance in developing countries. However, according to State and AID officials, and the historical record, the U.S. government agreed to participate in the Fund with the understanding that IFAD would have limited involvement in project design and management, and serve primarily as a co-financing or funding agency. It was expected that loans and grants would be provided for projects developed by other multilateral agencies, primarily the multilateral development banks, and this would enable IFAD to keep its staff very small and its administrative operating expenses low. During its early years, IFAD generally followed this mode of operation.

IFAD has since evolved into another implementing development agency with a considerably larger staff than originally anticipated. Rather than funding other agencies' projects, by 1991 all new projects were initiated by IFAD, up from 75 percent as recently as 1985. The agency also has become more involved in supervising the implementation of projects, even though its charter states that this responsibility should be entrusted to other agencies. IFAD officials said the agency had to increase its involvement in all phases of the project cycle to ensure that projects had the intended impact on targeted beneficiaries. IFAD officials also were dissatisfied with the supervisory work performed by cooperating institutions.

Administrative Operating Expenses Have Increased

Between 1988 and 1991, IFAD's administrative and operating expenses increased by 60 percent in current dollars, and the number of IFAD staff and consultants increased by 26 percent (from 189 to 238) and 40 percent (from 477 to 666), respectively. IFAD officials said that the agency has had no real growth in expenses over the past several years, but GAO's analysis shows that IFAD's expenses grew at an average annual rate of 4 percent in real terms from 1985 to 1991. The increase was primarily because of IFAD's expanded role in the project cycle, but also because other agencies increased their fees for supervising IFAD projects.

OPEC Funding Share Has Declined

When IFAD was established, the United States anticipated that OPEC countries and OECD member countries would, as a group, each contribute roughly one-half of IFAD's capital requirement. In the initial capitalization and the first and second replenishments of the Fund, OPEC countries paid 38 percent each time. However, for the third replenishment, OPEC countries, in 1990, pledged only 22 percent of total pledged contributions and have to date paid 19 percent of total paid contributions.

IFAD member countries are currently negotiating a fourth replenishment of the Fund. IFAD officials said the agency needs $600 million over the next 3 years to maintain the $327 million commitment level of lending in 1992 prices. It is uncertain whether OECD nations will continue to make up for the decline in OPEC's contributions. Some donors have indicated that the level of their support will be contingent on IFAD's reversing its expansion efforts and returning to its original operating structure. A representative from one OPEC country indicated that his government might contribute a higher percentage if IFAD returned to its original structure and reduced its administrative expenses.

IFAD Projects Have Had Mixed Results

According to officials and project recipients in the five countries GAO visited, IFAD assistance has benefited targeted groups. For example, a processing facility for cassava (a tuberous root used as a food source) was constructed under an IFAD project in Ghana so that local farmers could package cassava and store it for up to a year. Local government officials said that this facility reduced post-harvest losses by 10 percent. However, some projects face difficulties in sustainability, or continuing projects after assistance ends. IFAD attributes this at least in part to the extreme poverty and remote location of its recipients.

Government officials in Ghana, Kenya, and Zimbabwe told GAO that their governments were having difficulty covering recurring costs of projects. For instance, farm-to-market roads constructed in Ghana as part of an IFAD project were not maintained by the government. A bridge washed out during one rainy season, and about 5,000 families were cut off from the local market for 4 months, until the local population replaced it with locally available materials.

Other development agencies sponsor projects similar to those sponsored by IFAD. A U.N. report indicates that the U.N. Food and Agriculture Organization provided $1.1 billion and the World Food Program provided $482.1 million for agriculture and rural development in 1992. Also, the World Bank provides project loans for agriculture and rural development. According to IFAD, it differs from other agencies in its exclusive focus on the rural poor and in its approach to small farmers. In addition, some development experts said that IFAD is unique because it provides credit to poor people—especially women—without collateral and involves them in project design and implementation.

AID Missions' Involvement With IFAD Projects Is Minimal

Although AID has been designated as the lead U.S. agency with respect to IFAD, GAO found that AID has had minimal involvement with IFAD projects in the field. Mission officials said their staffs had limited time for IFAD projects because of other priorities. AID officials in Washington and the U.S. mission to IFAD in Rome said that AID missions should be more aware of IFAD's field activities and provide input to project proposals to ensure that the two agencies' projects do not conflict and that project proposals are sound. They told GAO that one step AID missions could take would be to give more attention to cables soliciting their opinion on proposed IFAD projects in their area.

Recommendations

GAO recommends that when considering IFAD's fourth replenishment, the AID Administrator, along with members of the Working Group on Multilateral Assistance, determine whether IFAD's mission and capitalization (both the amount and the contribution ratio) needs to be reexamined. Such a determination should include an assessment of whether the U.S. contribution to IFAD is an efficient use of these funds.

If the assessment shows that IFAD's original operating structure and donor funding ratio are still appropriate, GAO recommends that the AID Administrator

- work with IFAD to conform its activities to its original operating structure and to reduce its overhead costs and
- seek to restore the originally envisioned funding ratio between OPEC and OECD countries.

If AID determines that IFAD should return to its original operating structure and that the original donor funding ratio is still appropriate, but is unsuccessful in getting IFAD to return to that operating structure or in restoring the funding ratio, then GAO recommends that the AID Administrator, working with other appropriate U.S. departments and agencies, initiate action to suspend any further U.S. contribution to IFAD.

If after the assessment is made, the United States continues to participate in IFAD, GAO recommends that the AID Administrator

- work with IFAD to help ensure that projects it finances are sustainable after its support ceases and
- direct AID mission directors in countries with IFAD programs to become knowledgeable of IFAD activities, and advise AID headquarters and the U.S. mission in Rome whether the IFAD projects complement or conflict with AID's activities and whether the projects will be sustainable without further assistance.

Agency Comments

In commenting on a draft of this report, IFAD stated that it is operating within its charter and that its governing bodies had supported the shift in emphasis. However, the Department of State and AID generally agreed with GAO's conclusions that U.S. participation in IFAD should be reexamined if the fourth replenishment fails to bring OPEC back to its former partnership role in funding the institution. AID also agreed that (1) sustainability of IFAD projects should be a priority, (2) every effort should be made to hold down administrative and operating costs, and (3) its overseas missions should be more knowledgeable about and involved with IFAD projects.

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Abbreviations

AID	Agency for International Development
FAO	Food and Agricultural Organization
GAO	General Accounting Office
ICSC	International Civil Service Commission
IFAD	International Fund for Agricultural Development
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries

Introduction

The concept for the International Fund for Agricultural Development (IFAD) originated at the 1974 World Food Conference, which focused international attention on the critical food shortages facing developing countries. The Fund, according to a conference resolution, "should be established immediately to finance agricultural development projects primarily for food production in the developing countries."

Over the next 3 years, representatives of the Organization for Economic and Cooperation Development (OECD) member countries,[1] the Organization of Petroleum Exporting Countries (OPEC) member countries,[2] and various developing countries negotiated the mission, organizational structure, and funding of IFAD. The United States was very active in drafting the IFAD charter. OPEC had proposed IFAD at the World Food Conference, and its participation was considered crucial in winning the support of OECD countries for a new international agency. OECD countries did not want to fully finance IFAD themselves. IFAD as a funding agency was seen by OECD countries as a mechanism to distribute some of OPEC's petroleum-related income to needy countries.

The Fund was established as a U.N. specialized agency in 1977 in accordance with Resolution XIII of the 1974 World Food Conference. Its initial capitalization was about $1 billion. OECD countries agreed to donate 56 percent and OPEC countries agreed to 43 percent of this amount, with other developing countries donating the remaining 1 present. IFAD headquarters is in Rome.

IFAD Mission

Under its charter, IFAD was to focus its assistance on small and tenant farmers in food deficit countries. The beneficiaries were to include large numbers of women and children in poor rural areas. IFAD was to provide loans and grants to the host government with the intent of helping the recipients become more self-sufficient.

Assistance was to be based on poverty and food needs, but priority was to be given to people in the 45 countries of sub-Saharan Africa affected by drought and deforestation, the 46 countries designated as "least developed" by the U.N. General Assembly, and the 74 countries identified

[1]OECD member countries in 1991 were: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

[2]OPEC member countries in 1991 were: Algeria, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

as low-income and food deficit by the U.N. Food and Agriculture Organization (FAO). There is some overlap among these categories. According to its 1991 Annual Report, IFAD has provided assistance to 94 countries.

IFAD Organizational Structure

IFAD's voting power structure differs from that of the multilateral development banks, such as the World Bank. Generally, voting power in these institutions is closely linked to the level of financial contributions made by member states. In contrast, voting power in IFAD is shared equally among the three categories of its members, but within the OECD and OPEC members, power is weighted according to the members' initial contribution plus additional contributions.

A Governing Council sets overall policy. Each of IFAD's 147 member countries has a representative on the Council. The Council, which meets annually, elects 6 members from each category to the 18-member Executive Board and may delegate most of its authority to the Board. The United States, the single largest donor to the Fund, has the only permanent seat on the Executive Board. The Board conducts IFAD's general operations in conjunction with the Fund's president, who is selected by the Governing Council for a maximum of two 4-year terms. By agreement, the president of IFAD is always a citizen of an OPEC country.

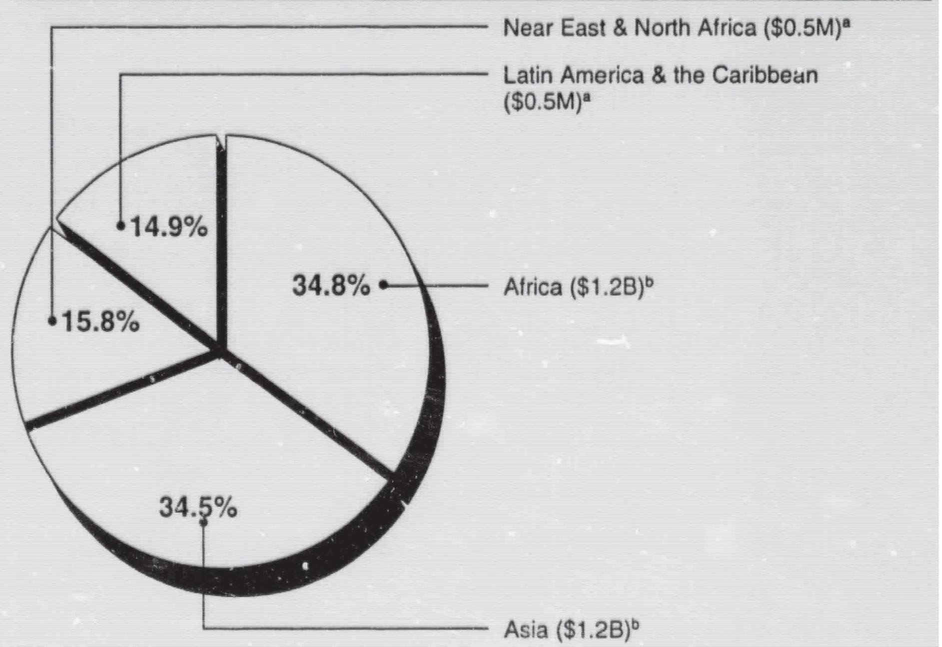
IFAD Funding

Since the initial capitalization in 1977, the Fund has been replenished three times with new donations from member states. The replenishments are negotiated by the member states. The Fund also receives income from its investments and from repayment on loans.

Between 1977, when IFAD was established, and 1991, the Fund made loans and grants totaling $3.5 billion, of which $3.4 billion went to 313 loan projects in 94 countries. More than 380 grants, amounting to a total of $166.4 million, were also made. Including the assistance provided by co-financing organizations and host countries, the projects received a total of $12.3 billion. From 1978 to 1991, IFAD's average loan and grant commitment was about $252 million annually. In 1991, the average loan size was about $12.5 million, almost twice the average loan size in 1986. About 63 percent of IFAD's regular program loans were made on highly concessional terms—1 percent annual interest and a maturity period of 50 years, including a 10-year grace period; 27 percent of loans were made on intermediate terms—4 percent annual interest and a maturity period of

20 years with a 5-year grace period; and 10 percent of loans were made on ordinary terms—8 percent annual interest and a maturity period of 15 to 18 years with a 3-year grace period. Figure 1.1 shows the distribution of IFAD assistance by region.

Figure 1.1: Regional Distribution of IFAD Loans 1978 Through 1991



Note: Excludes $166 million in technical assistance grants.

[a]"M" refers to millions.

[b]"B" refers to billions.

Objectives, Scope, and Methodology

The former Chairman of the House Select Committee on Hunger asked us to review U.S. participation in IFAD and its operations and management. In response to his request, we (1) evaluated how IFAD has conducted its operations, (2) evaluated the agency's funding outlook, (3) determined whether projects are experiencing any problems, and (4) reviewed the relationship between IFAD and the Agency for International Development (AID).

While we do not have direct audit access, IFAD cooperated fully with our review and provided us with access to the necessary records and documents, including IFAD annual reports, Governing Council reports, loan proposals, program and budget documents, project completion reports, and other documents.

We conducted our review in Washington, D.C.; Rome, Italy; and five countries receiving IFAD assistance—Ghana, Cote d'Ivoire, Zimbabwe, Kenya, and Thailand. In Washington we examined various documents and held discussions with officials at AID, the Office of Management and Budget; and the Departments of State, Agriculture, and the Treasury. Our discussions with IFAD officials included interviews with the President of IFAD and his senior staff. We also interviewed officials of the United Nations Development Program, FAO, the World Bank, the Inter-American Development Bank, African Development Bank, and reviewed other publicly available U.N. documents.

We visited 11 project sites in 5 countries receiving IFAD assistance, and we discussed the projects with project officials, beneficiaries, and host government officials. In selecting countries, we sought to visit those with a large IFAD presence and a variety of projects. We also reviewed project completion reports for projects in 15 countries.

We performed our review from August 1991 to March 1993 in accordance with generally accepted government auditing standards.

IFAD's Operating Structure Has Changed and Support From OPEC Countries Has Decreased

When IFAD was established, it was anticipated that the Fund would serve primarily as a funding agency, providing financial assistance to projects developed by other multilateral agencies. The U.S. government and some other OECD countries that participated in establishing IFAD did not want the Fund to duplicate the activities of the multilateral development banks. They wanted IFAD to remain small and efficient, select projects identified and developed by other agencies, rely on the multilateral banks to appraise and supervise the implementation of IFAD projects, and keep administrative and operating costs low. IFAD, however, has become involved in all phases of the project cycle, initiating its own projects and financing many by itself. With this evolution, its administrative and operating expenses have also risen—an average of 4 percent each year in real terms between 1985 and 1991. In addition, the IFAD staff has nearly tripled in size from 80 in 1978 to 238 in 1991, and the number of consultants employed has risen substantially.

Some OECD and OPEC country donors indicated that the level of their future support may be contingent on IFAD returning to its original operating structure of co-financing projects and having limited involvement in the project cycle. As a result, IFAD's funding outlook is uncertain. Contributions from OPEC countries have declined sharply as a percentage of total contributions. When IFAD was established, it was anticipated that OECD and OPEC countries, as a group, would contribute roughly equivalent amounts to the Fund, and this is reflected in the initial capitalization pledges where OPEC countries pledged 43 percent and OECD countries pledged 56 percent. By the time of the third replenishment, OPEC countries' contribution pledges had dropped to 22 percent, and those of the United States and other OECD countries had increased to 67 percent. Developing countries pledged about 11 percent to the third replenishment. In terms of actual amounts paid, OPEC countries provided 38 percent in the initial capitalization and in both the first and second replenishments, but for the third replenishment (1990) OPEC countries have to date provided only 19 percent.

IFAD Develops Its Own Projects

In the negotiations to establish IFAD, the United States and other donors took the position that the agency should have a limited role, acting primarily as a funding agency. It was to consider projects developed by other agencies and choose those that were most likely to meet its objectives. By relying on the resources of other agencies, IFAD could keep its own staff small and minimize its administrative and operating expenses.

Consistent with this limited role, IFAD in the first 2 years heavily supported projects of other organizations. However, it has subsequently become more involved in developing and implementing projects. Of the 313 projects IFAD funded between 1978 and 1991, 219 were initiated by IFAD. IFAD has been the sole financier for 81 of the projects it initiated and has secured co-financing for the others. The project proposals approved by the IFAD Executive Board in 1991 were all initiated by IFAD. In contrast, 75 percent of the projects financed by IFAD in 1985 were IFAD-initiated projects.

According to AID documents, IFAD believes that the multilateral development banks and other organizations were not adequately targeting small farmers for assistance and that consequently, it needs to initiate its own projects. Representatives of developing countries echoed this concern, saying that the multilateral development banks were not sensitive to their agricultural needs.

In initiating its own projects, IFAD expanded its role in the project cycle to include project identification and project preparation. Project identification involves defining the objectives, scope, and content of the projects selected for potential funding. Project preparation focuses on developing more detailed proposals for approval by the Executive Board.

Although IFAD lending policies state that the governments of developing countries seeking IFAD assistance are responsible for project identification and preparation, IFAD officials said these governments often do not have the resources for these tasks. To assist these governments, IFAD has contracted with the FAO Investment Center to undertake project identification and preparation. According to FAO officials, however, IFAD itself has now become more actively involved in project identification and preparation. Where FAO once performed project identification and preparation for 80 percent of IFAD projects, it currently performs these tasks for 50 percent to 60 percent of the projects; IFAD does the others.

IFAD Is More Involved in Project Appraisal and Supervision

Its charter states that IFAD, as a general rule, is to rely on other international organizations for project appraisal. During the project appraisal phase, the technical and financial feasibility of implementing a project is to be determined. The charter also states that the supervision of project implementation is to be entrusted to competent international organizations. Project supervision involves monitoring the implementation of a project to ensure it is meeting its objectives.

IFAD has become more involved in both project appraisal and supervision. For example, IFAD staff and consultants were involved in conducting the 23 project appraisals done in 1991. According to a Governing Council report, this was necessary to determine whether projects would meet IFAD's specific assistance objectives. IFAD contracts with various international organizations for project supervision, but it sends its staff and consultants along on supervisory visits and conducts its own follow-up reviews. In 1990, IFAD participated in 103 supervisory missions, constituting 62 percent of all missions conducted by its cooperating institutions, and independently conducted 74 follow-up reviews.

According to IFAD officials, the Fund's involvement in supervision was necessary because the cooperating institutions often perform inadequately.[1] For instance, they said the cooperating institutions did not routinely provide specific feedback on projects. According to IFAD data, these institutions averaged only 1.2 supervisory visits per project each year. IFAD officials believe a minimum of two supervisory visits per year are needed. IFAD officials also said that the fees these institutions charge are too high. For these reasons, IFAD management considered developing a permanent in-house capability to supervise the implementation of projects and evaluated the costs and benefits of initiating this task on a limited basis.

Administrative and Operating Expenses Have Increased

As IFAD's role has expanded, so have its administrative and operating expenses. Administrative and operating expenses increased from $30.3 million in 1988 to $48.5 million in 1991—an increase of 60 percent. From 1988 to 1991, IFAD increased its staff by 26 percent and increased the number of consultants by 40 percent. Fees charged by cooperating institutions for supervising projects also grew.

IFAD claims that it has experienced zero real growth in operating expenses for several years. However, our analysis shows that administrative and operating expenses increased at an annual average rate of 4 percent in real terms between 1985 and 1991. Our calculations differ from IFAD's because we included increases in wages and benefits. IFAD did not include these increases because they were mandated by the International Civil Service Commission. (See app. I for further discussion on our methodology.)

[1] These international organizations, also known as "cooperating" institutions, include the multilateral development banks and the U.N. Development Program.

Operating expenses have also increased as a percentage of the annual loan commitment. As shown in table 2.1, this percentage increased from 12.5 percent in 1988 to 17.3 percent in 1991. These figures would be even higher, but in 1988 IFAD reclassified some operating expenses as project-related expenses.

Table 2.1: Operating Expenses as a Percentage of Loan and Grant Commitment (1988-91)

Then-year dollars in millions

Year	Loan and grant commitment	Administrative and operating expenses	Percentage
1988	$242.6	$30.3	12.5
1989	272.4	32.5	11.9
1990	322.5	41.9	13.0
1991	280.9	48.5	17.3

Administrative and operating expenses grew because of increases in three major cost components: staff, consultants, and fees charged by cooperating institutions. (See table 2.2.) Of the $18.2 million increase in operating expenses from 1988 to 1991, these cost components accounted for $15.6 million, or 85.7 percent.

Table 2.2: Major Cost Components of Administrative and Operating Expenses (1988-91)

Then-year dollars in millions

Cost component	1988	1989	1990	1991
Staff				
Number	189	198	207	238
Cost[a]	$14.0	$14.4	$19.2	$23.5
Consultants				
Number	477	498	652	666
Cost	$2.6	$4.9	$4.2	$5.4
Fees of cooperating institutions	$6.6	$5.6	$8.4	$9.9

[a]Costs include wages and benefits.

IFAD officials said that the fees charged by cooperating institutions to supervise projects have increased steadily. Table 2.3 shows the fees charged by some of these institutions in 1987 and 1990.

Table 2.3: Supervisory Fees Charged Per Project to IFAD

Cooperating institution	Year 1987	Year 1990	Percentage change
World Bank	$37,271	$59,963	60.9
U.N. Development Program	43,181	39,371	(8.8)
African Development Bank	19,799	39,537	99.7
Asian Development Bank	31,250	35,979	15.1

As shown in the table, only the fecs charged by the U.N. Development Program decreased. IFAD officials told us that they had held discussions with U.N. Development Program officials to bring about reduction in the fees but were not successful in persuading the multilateral development banks to reduce their fees.

While these fees have risen, the increases in administrative and operating expenses primarily reflect IFAD's expanded role in projects and its decreased reliance on other development agencies. IFAD officials acknowledge that their workload has increased because they initiate their own projects. As discussed earlier, they believe this involvement became necessary to ensure that projects met their objectives and reached the targeted beneficiaries.

Officials from some donor countries told us they believe that IFAD's involvement in the project cycle has resulted in a higher level of expertise. They said IFAD's critical input into project design had been helpful, and its methods for reaching target populations often had been innovative. However, according to officials from other donor countries, IFAD has become too involved in projects and has exceeded its original mandate. IFAD has stated that the Fund in the future would seek more balance between its own projects and those initiated by other institutions.

IFAD's Funding Outlook Is Uncertain

OPEC members proposed IFAD at the 1974 World Food Conference and were heavily involved in its creation. But donations from OPEC have dropped sharply, and OECD countries have had to take on a larger share of the funding burden. Currently, IFAD members are negotiating the fourth replenishment of the Fund, and IFAD officials hope to receive pledges of $600 million. Some leading donors said their continued support will be contingent on IFAD's reversing its expansion and becoming less involved in project design and management.

Funding Sources

IFAD has three major funding sources. First, it earns income from investments, which totaled $1.15 billion from 1980 to 1991. Second, it collects repayments on loans. As of December 31, 1991, loan repayments totaled $858.2 million, and total arrears overdue on loan interest, service charges, and repayment of principal were $25.6 million. The third and largest source of funds is donations from member countries. In the initial capitalization, members pledged $1 billion. In three subsequent replenishments of the Fund, members pledged $1.1 billion, $488.8 million, and $567.6 million, respectively.

OECD members were disappointed with the low level of the second replenishment and created the Special Program for Africa in 1986 to target additional assistance to countries in that region. OECD members pledged $300 million, with the United States contributing $10 million. This program allowed IFAD to maintain its traditional level of financial assistance to that region. In 1991, the Governing Council decided to continue the program for a second and final phase.

OPEC Has Reduced Its Share of Funding

The United States and other OECD donors based their participation in IFAD, in part, on the premise that OPEC and OECD countries would donate roughly equivalent shares of funding. OPEC countries pledged 43 percent of the funds in the initial capitalization, with OECD countries donating most of the rest of the funding. Since the second replenishment, however, pledges from OPEC countries have fallen off sharply. In the third replenishment, their share of the funding was just 22 percent of pledged contributions, while their share of paid contributions to date is 19 percent. (Payments under the third replenishment are not yet concluded.) Donations from OECD members have also declined, but these countries have taken on a larger share of the funding burden. (See table 2.4.)

Table 2.4: Contributors to IFAD

Dollars in millions

Countries	Initial contributions	First replenishment	Second replenishment	Third replenishment
OECD countries				
United States	$200.0	$180.0	$ 79.7	$ 82.8
Germany	55.0	57.7	25.7	38.1
Japan	55.0	60.2	26.8	39.8
Netherlands	44.5	44.6	13.8	20.7
Canada	29.8	34.9	15.5	22.7
Others	187.0	242.5	114.4	174.1
Total OECD	**571.4**	**620.0**	**276.1**	**378.2**
OPEC countries				
Iran	124.8	19.2	_	4.0
Saudi Arabia	105.5	155.6	72.6	30.0
Venezuela	66.0	38.5	28.0	28.0
Kuwait	36.0	56.0	25.0	14.0
Nigeria	26.0	40.5	10.0	10.0
Others	77.2	140.1	48.4	38.4
Total OPEC	**435.5**	**450.0**	**184.0 12**	**4.4**
Developing countries				
India	5.0	6.5	6.5	8.0
Mexico	5.0	6.5	2.1	7.5
Pakistan	.8	1.1	1.5	2.0
Sri Lanka	.8	1.0	1.0	1.0
Others	4.1	16.8	17.6	46.5
Total developing countries	**15.7**	**31.9**	**28.7 6**	**5.0**
Total	**$1,022.6**	**$1,101.9**	**$488.8[a]**	**$567.6[a]**

[a]Totals may not add up due to rounding.

Representatives of some OPEC countries said their countries have not contributed as much to the Fund because they have encountered political and financial difficulties. They cited the Iran/Iraq war, a drop in oil prices, and debt problems. Also, a representative from one OPEC country indicated that his government might be willing to contribute more to IFAD if the Fund would return to its original operating structure as a funding rather than an implementing organization, and reduce its administrative expenses.

Future Funding Support Is Uncertain

IFAD officials told us that the Fund needs at least $600 million over the next 3-year period for the fourth replenishment. IFAD and some donor country officials told us that the Fund needed such a replenishment in order to remain viable; according to IFAD, this amount is required for it to meet yearly commitments at 1992 prices. It is uncertain whether IFAD can meet this goal because, according to representatives from some OECD countries, their governments may not be willing to continue providing substantial funds in light of OPEC's reduced participation. In addition, as discussed earlier, some donors have said they will condition their support on a reversal of IFAD's expansion into project design and management.

Some OECD donors, including Canada and Switzerland, have suggested a restructuring of IFAD to reflect OPEC's reduced participation. Voting power, these donors say, should be based on contribution levels, as it is for other international financial institutions, rather than split into equal thirds for OECD, OPEC, and developing countries. Some donors have stated that the IFAD presidency should be opened up to all member countries rather than be reserved for an OPEC member.

IFAD Projects Have Had Mixed Results

According to host country officials and project recipients in the five countries we visited, IFAD assistance is benefiting target groups; however, officials noted that some projects had problems that would limit their sustainability. Rural women are benefiting from IFAD assistance through credit and training. On the basis of our review of 15 project completion reports, it appears that IFAD assistance is having mixed results in different regions. A 1993 U.N. report indicates that other multilateral organizations also focus on very poor countries and provide assistance similar to IFAD.

Sustainability Is a Concern

"Sustainability" refers to whether a project remains viable once external assistance is exhausted. According to IFAD, the sustainability of its projects involves environmental, financial, and institutional factors. Environmental sustainability concerns the restoration and enhancement of the soil to meet the productivity requirements of a target population. Financial sustainability pertains to having enough resources to pay recurring costs without continuing external assistance. Institutional sustainability refers to the development of local groups to take control over and responsibility for a project at the end of the IFAD project cycle.

On our site visits, we observed mixed results on project sustainability. Financial sustainability, in particular, was a problem in many countries we visited. In Ghana, Kenya, and Zimbabwe, officials told us that the government was having difficulty covering the recurring costs of projects. For instance, the government of Ghana took on the responsibility for maintaining water pumps constructed under the project. However, project beneficiaries told us that the government was slow to repair the pump in one village we visited. Government officials said that this was because local villagers did not pay the required maintenance fees.

Another project in Ghana that we visited had proven to be financially sustainable. A cassava[1] processing facility constructed in the Volta region enabled farmers to package their cassava crop and store it for up to a year. This reduced post-harvest losses by 10 percent. Host government officials and project managers said local cassava farmers had an incentive to increase their production without worrying that much of their crop would be lost before it could be sold.

In general, we found that the likelihood that projects would be sustainable increased when the targeted population participated in the project design or committed labor or materials to it. In our visit to Thailand, for instance,

[1]A tuberous plant root that provides nutritious starchy food products.

we found that a project to construct water reservoirs involved the establishment of local committees to maintain the dams. In addition, projects are likely to be more sustainable when they are integrated with the existing institutions in the host country. According to project completion reports, irrigation projects in India and Egypt are expected to be sustainable because they were made part of each country's irrigation network.

The results of our site visits to 11 projects are discussed further in appendix II.

IFAD's Assistance to Rural Women

IFAD has made a major effort to assist rural women, who constitute a large portion of the agrarian work force in developing countries. Our review of project descriptions in IFAD reports showed that from 1986 to 1990, most of the IFAD's 118 projects had at least a component involving women. IFAD officials said that by the end of 1992, IFAD intended to focus at least 30 percent of its resources on women.

Our review shows that rural women are being reached through projects with credit components. In many cases, as in Kenya and Zimbabwe, IFAD was the first agency to extend credit to these women. Prior to IFAD's intervention, the women had difficulty obtaining credit because financial institutions required some form of collateral to qualify. IFAD encouraged the women to form credit groups as a way of capital formation. Host government and IFAD officials noted that women's credit groups have proven to be cohesive and have higher repayment rates than men's credit groups.

An example of IFAD's support for women is the Grameen Bank of Bangladesh. This bank, which received about $35 million in IFAD funds since 1980, had 915 branches operating in 15 percent of Bangladesh's villages by the end of December 1991. It had made loans to credit groups with a total membership of 1.1 million, 92 percent of whom were women. IFAD stated that impact evaluations had shown that the loan recipients had seen a 30-percent rise in their income. Their repayment rate exceeded 98 percent.

IFAD is also providing special training for women. The training often involves literacy, health, nutrition, home improvement, and income generation skills. IFAD also is training more women as extension agents. According to a 1990 Progress Report on Women in Development, only

11 percent of agricultural extension agents in Africa were women; this figure represents a constraint on integrating women into the development process. In a Zimbabwe IFAD project, however, women constituted a majority of the financial credit field staff—a benefit of IFAD's training efforts.

IFAD's focus on women has encountered some difficulties. We were told during our field visits that earmarking resources for women can cause resentment from men, especially if the projects are successful. In Ghana, some husbands have restricted their wives' participation in IFAD activities. In Kenya, social pressures were cited as the reason for the declining membership in women's groups. Moreover, according to a World Bank official, some host country governments did not promote the inclusion of women in projects.

Project Completion Reports Indicate Mixed Results

Our review of 15 project completion reports for 15 countries (34 percent of the IFAD countries with completed projects) indicates mixed results by region. Projects in the Africa region, while showing some modest success in terms of institution building and establishing infrastructure, encountered problems because of lack of counterpart funding by the host governments, drought, and political unrest. The Asia region completed the largest number of projects, and IFAD reports show good results for five of its six projects we reviewed. Irrigation systems were improved and food production increased. However, political problems caused one project in the Philippines to fail. Reports reviewed indicated that projects in the Latin America and Caribbean region were basically not successful, except for one project. Reports on projects in the Near East and North Africa region indicated that the projects were successful and had achieved their goals.

The project completion reports were prepared by cooperating institutions supervising the implementation of IFAD projects. Each cooperating institution used its own standards to evaluate project success or failure and to determine whether projects met the three IFAD objectives to increase food production, increase income levels, and reduce malnutrition. The cooperating institutions also compared the objectives established in the loan proposal to what had actually been accomplished, to determine the extent to which objectives were met during the life of the project.

Other Multilateral Organizations Provide Similar Assistance

According to some donor and recipient country officials, IFAD occupies its own niche among development agencies. However, IFAD is not alone in providing agricultural and poverty alleviation assistance to developing countries. A 1993 report of the Administrative Committee on Coordination on Programs and Resources of the United Nations shows that other organizations within the U.N. system provide similar assistance. For example, according to the report, FAO provided $1.1 billion for agricultural and rural development, and the World Food Program provided $482.1 million for agricultural development in 1992. Also, the International Development Association of the World Bank Group provided $1.8 billion in project loans for agricultural and rural development in 1991. Like IFAD, the International Development Association assistance is focused on very poor countries. Multilateral development banks also focus on poverty alleviation.

AID Plays a Limited Role in IFAD Field Activities

AID has been designated as the lead agency for U.S. participation in IFAD, but its involvement with IFAD projects at the field level has been minimal. As the lead agency, AID is responsible for coordinating U.S. policy with other members of the interagency Working Group on Multilateral Assistance. AID has provided co-financing or parallel financing for five IFAD projects in four countries at a cost of $29.2 million.

Most of the five missions we visited were not involved with IFAD projects. AID missions do not give high priority to responding to cables soliciting their opinion on IFAD loan proposals. Mission officials said the reason for their lack of involvement is that their staffs are too busy with other agency responsibilities. AID officials in Washington and the U.S. mission to IFAD in Rome said the AID missions should be more involved with IFAD activities to ensure that IFAD and AID projects complement one another and that IFAD project proposals are sound.

AID Coordinates U.S. Policy on IFAD

The U.S. Executive Director to IFAD is an AID official and is part of the U.S. delegation that attends the annual IFAD Governing Council meeting. The delegation is usually headed by an AID/Washington official, and other delegates include officials from the Departments of State and Agriculture. The U.S. Executive Director in Rome obtains IFAD loan proposals and sends them to AID/Washington, which distributes the proposals to members of the Working Group on Multilateral Assistance for review.

In addition to AID and Treasury, the Departments of Agriculture and State, the Office of Management and Budget, and other U.S. government agencies are members of the working group. Working group members are expected to review the IFAD loan proposals, but officials from Treasury and AID told us that Treasury does not review the IFAD loan proposals. They pointed out that Treasury reviews over 600 multilateral development bank loan proposals each year, and that with a staff of four, Treasury does not have time for the job. Instead, Treasury defers to AID. According to Department of Agriculture officials, they review IFAD loan proposals to see if projects will likely create increased income for the poor. Department of State officials said they are concerned with U.S. foreign policy issues when reviewing IFAD loan proposals.

Missions Have Limited Involvement in IFAD Field Operations

AID missions have limited involvement with IFAD projects. At the time of our visit, four of the five AID missions were not involved with IFAD projects in their area and had very little knowledge about them. In addition, AID officials in Washington and at the U.S. mission to IFAD in Rome said that the AID missions in host countries generally give minimal attention to cables from the U.S. Executive Director to IFAD soliciting their opinion on IFAD loan proposals. The AID mission in Kenya was knowledgeable about IFAD projects and was responsive to cable inquiries about them, but did not otherwise participate in the projects.

Some AID officials said that missions have limited staff and must determine which projects will receive attention.[1] IFAD projects have generally not received high priority by AID missions, although mission officials said a particular project could receive more attention if the AID staff believe the project intersects with AID's interests in the country. AID mission officials also said that the loan information contained in the Executive Director's cables is not provided early enough or in sufficient detail for an adequate response.

AID officials in Washington and at the U.S. mission to IFAD in Rome expressed concern about the missions' lack of attention to IFAD's loan proposals. They said that the missions are in the best position to determine whether a proposed IFAD project will complement AID's own projects in a country. The missions can also comment on the potential for a project's sustainability and whether project proposals are sound.

AID officials in Washington and the U.S. mission to IFAD in Rome said they have encouraged the missions to give more attention to IFAD's activities in the field. They also said IFAD could take steps to raise the missions' awareness of its activities. For instance, the Executive Board could make their loan summaries available to member state representatives sooner, and IFAD project managers could make more of an effort to visit with AID mission staff during their in-country visits.

[1]We did not evaluate the adequacy of AID mission staffing levels during this review. However, our report entitled, Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11,1993) points out that AID has not ensured that its employees are appropriately allotted among its missions.

Conclusions, Recommendations, and Agency Comments

Conclusions

The scope of IFAD's role in project assistance has changed significantly since its early years. In the beginning, it functioned primarily as a funding agency, providing loans and grants for projects developed by other multilateral agencies. Today, it develops its own projects and is involved in all phases of the project cycle. While IFAD officials believe the expansion in the agency's role was necessary to ensure that projects met the agency's objectives, the expansion increased operating expenses and represented a significant departure from IFAD's original operating structure to serve as a co-financing agency with limited involvement in the project cycle.

IFAD faces an uncertain funding situation in the years ahead. Although it was initially expected that OECD and OPEC member countries, as a group, would contribute roughly equivalent amounts to IFAD, OPEC donations have fallen off even more sharply than OECD country donations over the years, with OPEC countries pledging only 22 percent of the third replenishment. If this trend continues, OECD countries will have to continue to pick up a larger percentage of the funding burden in order to maintain IFAD activities. It is uncertain whether they will be willing to do this.

AID coordinates U.S. policy on IFAD, but missions are playing a very limited role in IFAD field activities. Although AID's overseas missions are in the best position to comment on the sustainability and soundness of an IFAD project, AID officials claim that mission staffing resources are limited and staff do not have time to devote to low-priority activities such as IFAD projects.

Given the significant changes in IFAD's operating structure with its growing overhead and administrative expenses, the funding uncertainties on the part of other members, and the lack of AID involvement in monitoring IFAD field activities, we believe a reassessment of continued U.S. support of IFAD is warranted.

Recommendations

We recommend that when considering IFAD's fourth replenishment, the AID Administrator, along with members of the Working Group on Multilateral Assistance, determine whether IFAD's mission and capitalization (both the amount and the contribution ratio) needs to be reexamined. We recommend that such a determination include an assessment of whether the U.S. contribution to IFAD is an efficient use of these funds.

If the assessment shows that IFAD's original operating structure and donor funding ratio are still appropriate, we recommend that the AID Administrator, as the head of the lead agency for U.S. participation in IFAD,

- work with IFAD to conform its activities to its original operating structure and to reduce its overhead costs and
- seek to restore the originally envisioned funding ratio between OPEC and OECD countries.

If AID determines that IFAD should return to its original operating structure and that the original donor funding ratio is still appropriate, but is unsuccessful in getting IFAD to return to that operating structure or in restoring the funding ratio, we then recommend that the AID Administrator, working with other appropriate U.S. departments and agencies, initiate action to suspend any further U.S. contribution to IFAD.

If after the assessment is made, the United States continues to participate in IFAD, we recommend that the AID Administrator

- work with IFAD to help assure that projects financed by the organization are sustainable after external support ceases and
- direct AID mission directors in countries with IFAD programs to become knowledgeable of IFAD activities, and advise AID headquarters and the U.S. mission in Rome whether the IFAD projects complement or conflict with AID's activities and whether the projects will be sustainable without further assistance.

Agency Comments

In commenting on a draft of this report, IFAD acknowledged that during its early years of operations a much greater percentage of the projects it financed had been identified and developed by other agencies, but as time passed, there was an increase in projects initiated by the Fund. IFAD stated that it is operating within its charter and that its governing bodies have supported this shift in emphasis.

The Department of State and AID generally agreed that U.S. participation in IFAD should be reexamined if the fourth replenishment fails to bring OPEC back to its former partnership role in funding the institution. AID also agreed that (1) sustainability of IFAD projects should be a priority, (2) every effort should be made to hold down administrative and operating costs, and (3) its overseas missions should be more knowledgeable about and involved with IFAD projects.

Comments received from IFAD, AID, and the State Department are reprinted in appendixes III, IV, and V, respectively.

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Calculating the Real Growth of the International Fund for Agricultural Development's Operating Expenses

This appendix explains the methodology we used to calculate real growth in the International Fund for Agricultural Development's (IFAD) operating expenses. We define real growth in expenses from one period to the next as the amount necessary to maintain constant purchasing power, or growth that exceeds inflation. For the budgets of U.S. agencies, this calculation is straightforward. Any budgetary increases due to inflation are removed by converting the amounts into constant dollars. The constant dollar budgets can then be compared to determine the real growth in expenses. But determining real growth for IFAD's budget was more complicated because IFAD makes expenditures in both Italian lire and U.S. dollars.

Methodology Used in Calculations

From 1985 to 1991, IFAD made 59 percent of its expenditures in lire and 34 percent in dollars.[1] To remove the budgetary changes that were due to exchange rate changes, we determined the average market exchange rate for each year. In addition, we used separate price indexes for the U.S. and Italian portions of expenditures to account for the different inflation rates in Italy and the United States.

After removing the effects of exchange rates and inflation, we considered all increases in expenses that exceeded the amount necessary to maintain constant purchasing power as real growth. We included wage and benefit increases set by the International Civil Service Commission. As noted in chapter 2, IFAD reasoned that since these increases were mandated by its agreements with the United Nations, they should not be counted. However, in our approach, all personnel cost increases above inflation were counted as real growth.

Steps in Measuring IFAD's Real Growth

To calculate the real growth of IFAD's expenses between 1985 and 1991, we took the following steps:

1. Derived the portion of the budget spent in Italian lire, using the average market exchange rate for that year. This procedure divided expenses into a lire and a dollar portion, based on the proportions spent in each currency.

2. Constructed a price index for the lire portion of the budget, based on the Italian consumer price index and gross domestic product deflator

[1]Approximately 7 percent of the expenses were not in lire or in dollars. For purposes of constructing weights for the price indexes used in the calculations, this percentage was evenly divided between the lire and the dollar proportions.

weighted by the approximate proportion of IFAD's expenses spent on wages versus other goods and services.

3. Constructed a similar price index for the dollar portion of IFAD's budget, based on the U.S. consumer price index and gross domestic product deflator.

4. Converted the lire portion of each budget into 1991 constant Italian lire, using our price index for lire.

5. Converted the 1991 constant Italian lire into 1991 constant dollars using the average 1991 market exchange rate between the lire and the dollar.

6. Converted the dollar portion of each budget into constant 1991 dollars, using the price index that we had constructed for the dollar.

7. Added the amounts in steps 5 and 6 so that the total budget for every period would be expressed in constant 1991 dollars.

8. Calculated the growth rate for each budget.

Results of Calculations

As shown in table I.1, the average nominal growth of IFAD's expenses was 13.9 percent, compared with an average real growth of 4 percent for the period 1985 to 1991.

Table I.1: Percentage Annual Growth Rates of IFAD Expenses

	1985	1986	1987	1988	1989	1990	1991	Average
Nominal growth	10.8	13.6	25.9	-5.6	5.7	35.4	11.7	13.9
Real growth	10.0	-10.2	9.5	-10.1	3.7	16.9	8.3	4.0

We used the same methodology to calculate the real growth for the Special Program for Africa for the years 1988 to 1991. As shown in table I.2, the average nominal growth for the period was 4.8 percent, and the average real growth rate was -0.5 percent.[2]

[2]The first year's expenses, 1986, were not included because the program was just getting started. The inclusion of the expenses of 1986 greatly changes the results and was dropped. If 1986 is included, the nominal average becomes 17.3 percent and the average real growth becomes 8.6 percent for the 1987-91 period.

Table I.2: Percentage Annual Growth Rates for Special Program Expenses for Africa

	1988	1989	1990	1991	Average
Nominal growth	–27.0	40.1	–18.5	24.5	4.8
Real growth	–30.5	37.6	–29.7	20.8	–0.5

Information on Projects GAO Visited

This appendix describes the 11 projects we visited in five countries. These comments are based on (1) our observation of activities, (2) testimonial evidence presented by local officials and project beneficiaries during site visits, (3) summary information prepared by IFAD on each project, and (4) a limited amount of documentation available at the project site. Table II.1 lists the projects and the IFAD loan amounts.

Table II.1: IFAD Projects We Visited

Dollars in millions

Country	Project	Loan amount[a]
Ghana	Volta Region Agricultural Development Project	$12.5
	Smallholder Rehabilitation and Development Programme	12.2
Cote d'Ivoire	Dabakala/Katiola Rural Development Project	6.6
Zimbabwe	National Agricultural Extension and Research Project	12.4
	Agricultural Credit and Export Promotion Project	15.0
Kenya	National Extension Project	5.0
	Animal Health Services Rehabilitation Programme	8.7
	Kwale and Kilifi District Development Project	8.0
Thailand	Agricultural Diversification and People's Irrigation in the North Project	10.0
	National Agricultural Research Project	15.0
Regional	Agricultural Management Training Programme for Africa	1.1

[a]Amount represents only the IFAD contribution. Except for Ghana's Smallholder Rehabilitation and Development Project, all other projects received funds from co-financing institutions and except for the Regional Agricultural Management Training Programme for Africa grant, all projects includes funding from host governments.

Source: IFAD project documents.

Ghana

Volta Region Agricultural Development Project

The World Bank initiated the Volta Region Agricultural Development Project, and IFAD provided co-financing. The project, which started in 1981 and ended in 1988, was aimed at increasing the production of root and tuber crops, with a focus on cassava. Cassava is a staple in Ghana, constituting 22 percent of the country's agricultural production. We visited a cassava processing facility that was constructed under the project. According to local officials, the facility has reduced post-harvest losses by 10 percent because it allowed the community to store cassava for up to 1 year and market it throughout this period.

Other project results included the following:

- Farmers planted new varieties of trees using new intercropping techniques.
- Feeder roads were constructed to provide villages access to local markets. Under the loan agreement, the government was responsible for maintaining the roads. However, host government officials said that the government lacked the funds to purchase fuel for maintenance vehicles; consequently, the roads were not maintained. A bridge was washed out during the rainy season, and some 5,000 families lost access to the local market for 4 months.
- Wells were drilled and pumps installed in villages to improve the water supply. According to an IFAD document, the pumps helped reduce the incidence of guinea worm, which is a major health hazard. At one site, the pump malfunctioned four times, and each time it took about 3 months to be repaired. The Department of Water and Sewage was responsible for pump maintenance and assessed a household fee for this service. However, a Department official said there were problems in collecting payments.
- Some 1,500 fuel-efficient stoves were provided to households. The stoves (see fig. II.1) require less firewood—freeing up time for activities other than gathering firewood—and is less harmful to the environment than traditional stoves.

Figure II.1: Woman Cooks on a Fuel-Efficient Stove

Smallholder Rehabilitation and Development Program

The Smallholder Rehabilitation and Development Program, an IFAD-initiated loan program, makes credit available to farmers through the Agricultural Development Bank and the Bank of Housing and Construction. Securing agricultural credit has been a problem for small farmers in Ghana because they are not considered a good risk. Through this ongoing project, some farmers are receiving loans for the first time.

The loans are made to small groups, which then distribute them among individual recipients. The average recipient owns about 10 acres, and the typical loan is equivalent to $120. Inputs, such as seeds and fertilizer, constitute 80 to 85 percent of each loan, with the rest of the loan in cash.

Some farmers told us that despite the project, access to credit was still hard to obtain. They also expressed concern about the interest rates charged by the bank—about 26 percent. This rate, they said, was too high for many farmers.

Cote d'Ivoire

Dabakala/Katiola Rural Development Project

The Dabakala/Katiola Rural Development Project, initiated by IFAD and co-financed by the Banque Oest-Africaine de Development, has several components that focus aid on poor farmers. Project recipients said that with the project's assistance, for example, a farmer's association increased its production of raw cotton from 200 tons a year to 267 tons. The project also promoted savings among farmers through the establishment of village cooperatives. At the time of our review, a cooperative had been established with 284 members in 5 villages. Project officials and beneficiaries told us that cooperative members had been able to save 14 percent of their net income.

Other project results included the following:

- During our site visits, we were told by one farmer that he received nine cows and a bull through the project, which helped him to diversify his sources of income. However, the farmer said he could not afford to purchase medication to treat such common cattle health problems as ticks.

- A poultry farmer received breeding cocks, medicine, and advice on housing and feeds. As a result, his chicks became more disease resistant, and poultry production tripled in 4 years.
- A 24-kilometer road was constructed to provide two villages access to a local market.
- Three extension agents provided health, income generation, and marketing training to women in rural villages. The beneficiaries we interviewed said the training had helped them to improve their hygiene and increase their income.
- Local officials indicated that farmers cleared about 180 plots of land with winches and chain saws provided through the project. The farmers also received oxen for plowing, seeding, and weeding.
- A water well drilled in one village was partially financed by the villagers themselves. The villagers initially raised the equivalent of $354, and now each beneficiary pays a maintenance fee of 49 cents each month. (See fig. II.2.)

Figure II.2: Village Leaders Demonstrate Water Pump

thus fully aware that greater attention to project focus and impact required greater funding. They also recognised that this required additional staff. The Executive Board called for an independent analysis of personnel requirements. With funding provided by the Government of Canada, such a study was undertaken (known as the Mullin Report based on the person who directed the study). The Mullin Report made firm recommendations for additional personnel which were accepted by the Governing Bodies as the correct basis of a staff build-up, although the Executive Board urged that this be done over a period of two or three years. Most of the Mullin Report recommendations have been implemented, although the management of the Fund has refrained from proposing the establishment of all the positions recommended in that Report until further operating experience is gained.

Thus it is clear that the increase in IFAD-initiated projects, and the full budgetary implications thereof, were well understood and fully supported by the Governing Bodies of the institution. More recently, in the light of the achievements and lessons learned to date, there is agreement that there can now be somewhat more reliance on financing projects initiated by other institutions. However, the Executive Board has insisted that the Fund's special role and focus on poverty alleviation should not be diminished by any such change in policy - and therefore that only about 25% of projects should be drawn from other institutions. This shift back to financing some projects initiated by other institutions is being specifically incorporated into the 1994 Programme of Work and Budget which will be reviewed later this year by the Executive Board and the Governing Council.

With respect to loan administration and supervision, the Agreement Establishing IFAD specifically requires that these responsibilities be assigned to cooperating institutions. Thus, IFAD plays no role in loan administration and its role in supervision is secondary, providing complementary support through selective participation in supervision missions related to project impact. This limited role by IFAD ensures that the flow of project benefits go to the participants intended by project design. This limited Fund role was fully foreseen in paragraph 40 of the Fund's Lending Policies and Criteria, adopted by the Governing Council at its Second Session, which states: " The Fund, while utilizing the services of international and regional institutions in project appraisal and in the supervision of project implementation, will itself actively participate in these activities, in order to ensure the observance of its lending policies and criteria."

Some Governments have suggested that IFAD should take on a more direct role in project supervision, at least with regard to a portion of its portfolio. In a 1985 review of IFAD by the United States Agency for International Development, it was suggested that the Fund could improve its performance with a greater role in supervision. This is a subject which is still under study and no formal recommendations have yet been made to the Governing Bodies. However, the Executive Board has formally requested that a study of this issue be submitted to it so that recommendations could be made as to whether past policy (and the Agreement Establishing IFAD) should be revised for this purpose.

For all of the reasons given above, there does not appear to be any basis for stating that IFAD has strayed from its mandate through initiating itself an increased percentage of projects.

Development Program, and the Organization of Petroleum Exporting Countries (OPEC) Fund,[1] assists farmers in ridding livestock of ticks. The livestock are "dipped" weekly in a chemical bath. The project finances the dipping facilities and chemicals.

Kwale and Kilifi District Development Project

IFAD's Kwale and Kilifi District Development Project, initiated by IFAD with co-financing from the U.N. Development Program and the Netherlands Organization for International Development Cooperation, is an ongoing project with several components aimed at assisting poor farmers. The project, for instance, was to support a group of women in Tiwi who grow and sell their own vegetables. Extension agents were to train the group members on health issues and income generation, and the women were to receive pipes for the construction of a water kiosk. The women were to sell the water for income.

We were told that some women's diets had improved and they had earned more money to pay school fees for their children. However, membership in the group had dropped from 90 to 26 members. Some members dropped out because they could not afford the group's weekly fees. Other women were told by their husbands to drop out because they had not received their permission to join. Group members also had problems transporting their goods to market, and they had not identified markets outside the local village.

Other project results include the following:

- The Ukunda Veterinary Investigation Laboratory was receiving project funds to conduct research on such things as tse tse fly control. When we visited, the laboratory had constraints on its ability to transfer the results of its work to the field. Among other things, the lab's only vehicle was broken down, and it lacked basic laboratory equipment.
- The Kenya Women Finance Training Program provided funds to a 20-member women's group in the Kilifi District. The group members fish, grow vegetables, and operate other small agricultural enterprises.
- Farmers, along with their animals, received training on plowing techniques. (See fig. II.3.) The objective was to reduce the amount of human labor required for this task while increasing the amount of land tilled. It takes about 2 weeks to train the animal and 1 week to train the farmer. Animal diseases were the biggest obstacle, although farmers were receiving assistance diagnosing and treating common diseases.

[1] The OPEC Fund for International Development is a multilateral, subregional financial institution.

Figure II.3: Man Uses Oxen to Till Land

Thailand

Agricultural Diversification and People's Irrigation in the North Project

The Agricultural Diversification and People's Irrigation Project in the North, which was initiated by IFAD with co-financing from the OPEC Fund, is constructing two dams for reservoirs. With more water available, as well as improved crop technology and cropping patterns, local farmers expect to increase their crop yields of rice, garlic, and legumes. At the time of our review, work on the Mae Kum Pong Dam was completed, and the Mae Prik Dam was 95 percent complete. Neither reservoir was filled yet. Local irrigation associations will be responsible for operating and maintaining the dams, with training assistance provided by the government.

Another project component we visited was the Huai Khum Women's Association, which received assistance in developing marketable farm products to subsidize farm incomes. The group had begun to produce a variety of mung bean and fish sauces, which they were able to sell for profit. Through the project, agricultural extension agents helped the women determine what products they could produce and also helped them develop technology for producing the sauces.

National Agricultural Research Project

The National Agricultural Research Project, which was initiated by the World Bank and co-financed by IFAD, was designed to strengthen the Thai Department of Agriculture's field research centers. Under the project, the research centers were given more autonomy so they could work directly with local farmers to determine the farmers' research needs. For instance, research center staff can now meet with farmers to discuss the obstacles to obtaining higher crop yields. Before the project was implemented, all research was coordinated centrally through the Department of Agriculture, and individual research centers did not have the authority to work directly with other key departments, such as the Royal Irrigation Department and the Department of Land Management.

Regional

Agricultural Management Training Programme for Africa

The Agricultural Management Training Program for Africa, a regional project initiated by IFAD in 1984 with co-financing provided by the African Development Bank and the World Bank, is designed to train managers to improve performance in agricultural development projects. According to some graduates of the program, the project has trained over 500 managers in 20 sub-Saharan African countries. Project participants in Kenya told us they received instruction in management, procurement, national policy, teamwork, budgeting, communication, and other subjects.

Comments From IFAD

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

THE PRESIDENT

22 June 1993

Dear Mr. Johnson,

I thank you for sharing with us the Draft Report of the United States General Accounting Office (GAO) on U.S. participation in the International Fund for Agricultural Development (IFAD). As requested in your transmittal letter, I am attaching to this letter a series of comments on the current draft form of the GAO Report, as well as an attachment which cites some specific errors which we believe should be corrected.

See comment 1.

However, it does appear to us that despite the extensive and intensive discussions which we had with GAO staff during their review of Fund operations in Rome there is a fundamental error which affects the overall tone and content of the Report. I therefore must ask that the GAO review our concern on this matter, which is spelled out below, since many of the conclusions reached in the Report appear to stem from this fundamental error.

The GAO Report asserts that IFAD has made a "significant departure from its original mandate to serve as a funding agency", providing loans and grants for projects developed by other multilateral development agencies. Related to this is the observation that the Fund's Budget grew because of this "significant departure" from the mandate.

While each of us may have his own interpretation of "mandate", I believe it cannot be denied that a mandate is ordinarily that which is spelled out in an organization's establishing documentation. The question of whether IFAD serves as a "funding agency" and finances only or primarily projects initiated by other agencies is found nowhere in the Agreement Establishing IFAD nor in its Lending Policies and Criteria. Rather, the mandate of IFAD, as laid down in Article 2 of the Agreement and in Paragraphs 7 to 19 of the Lending Policies is defined very clearly in terms of financing projects and programmes in developing countries to increase food production, reduce malnutrition and alleviate rural poverty. More specifically, paragraph 6 of the same document explicitly recognizes the need for IFAD's own initiative; the importance of keeping its own identity; and the fact that IFAD projects might be co-financed or independently financed. As far as cooperation with other institutions, this is found only in Article 8, Section 2 of the Agreement, which stipulates that IFAD will work closely with other agencies such as FAO, International Financing Institutions and Non-Governmental and Governmental Institutions.

Mr. Harold J. Johnson
Director, International
Affairs Issues
US General Accounting Office
Washington D.C. 20548

Thus the only place in which the issue of the method of operation of the Fund arises is in the actions of its Governing Bodies. In that respect, it is correct that initially, at least, the Executive Board of the Fund believed that it would be desirable to proceed with financing about 50% of IFAD funded projects from the pipeline of other organizations, the remainder to be initiated by IFAD itself. However, as time passed, the Board itself recognized and fully supported that, in order to assure that Fund resources were directed at poverty alleviation activities, there should be an increase in projects initiated by the Fund itself. This perception of the Executive Board has been consistently endorsed by IFAD's Governing Council. This trend was also necessitated by recognition that during the mid to late 1980s other international financial institutions moved away from agricultural and poverty focussed projects in order to concentrate on structural adjustment and sectoral adjustment programmes (programmes admittedly capable of helping establish the right environment for poverty alleviation activities, but not ones of a nature that would allow IFAD participation). It should be noted that the increased level of IFAD initiated projects also permitted IFAD to draw in additional co-financing, particularly from institutions which did not join in co-financing of those projects which IFAD drew from the pipeline of other institutions.

The point to be made here is that it is the Governing Bodies of IFAD which have supported this shift in emphasis to an increased percentage of IFAD initiated projects as being supportive of the mandate of IFAD as actually expressed in the Agreement Establishing IFAD and in the Lending Policies and Criteria. The Governing Bodies supported such a move with clear knowledge that this process did entail higher budgetary expenditures for project development. (Consequently the Governing Council consistently gave unanimous approval to the budgets required to carry out programmes in this manner). In the last few years, the Governing Bodies have also recognized that, having reached a point where IFAD has clearly been able to demonstrate the effectiveness of its approach to agricultural development and to poverty alleviation, and in view of the fact that other major financial institutions are once again devoting more of their attention to poverty issues, a reasonable share of future IFAD projects can properly be financed from the pipeline of other institutions. At the same time, the Governing Bodies have stressed that this move should be undertaken cautiously and in a manner which does not diminish IFAD's particular approach to poverty alleviation. The Governing Bodies have suggested that it might be appropriate that about 25% of IFAD's future lending programme should be in the form of projects co-financed from other institutions and the 1994 Programme of Work and Budget is being designed in precisely this manner.

As noted above and for the reasons just given, we do believe that portions of the current Draft GAO Report are based on a factually inaccurate understanding and that conclusions reached on the basis of that understanding do an injustice to the Fund and to its Member

Governments. We would therefore ask that you reconsider this issue and the manner in which the points are raised. To conclude, as is done on Page 44 of the Draft that the "expansion in the Fund's role represented a significant departure from IFAD's original mandate to serve as a funding agency" is, for the reasons given, simply not accurate. To conclude, on the other hand, that since this has raised administrative expenses it may be time to review the extent to which IFAD initiates the projects it finances is another matter and is one on which the Fund's Governing Bodies and its management have already reached agreement.

I trust that you will find these remarks as well as the attached comments and list of factual errors to be helpful in completing the final version of the Report.

Yours sincerely,

Donald S. Brown, Vice President
for Fawzi H. Al-Sultan

DRAFT COMMENTS ON GAO DRAFT REPORT

Background

The General Accounting Office (GAO) of the United States has produced a report on US participation in The International Fund for Agricultural Development (IFAD). The GAO team visited IFAD Headquarters in Rome, other agencies and 10 projects in four African (Ghana, Côte d'Ivoire, Kenya and Zimbabwe) and one Asian (Thailand) countries. It also reviewed a regional training programme (Agricultural Management Training Programme for Africa) funded by IFAD.

The major findings of the GAO can be summarised as follows: (a) IFAD has moved away from its original mandate to serve as a funding agency providing loans and grants for projects developed by other multilateral development agencies. Contrary to its charter, it has enhanced its role in project initiation and in all phases of project cycle; (b) the expansion in the Fund's role has increased administrative and operating expenses; (c) IFAD's future funding support is uncertain as OPEC countries have reduced their share of funding since the initial capitalisation of the Fund; (d) results of IFAD-financed projects are mixed, in particular, project-induced activities are not sustainable; and (e) other multilateral development organisations provide assistance similar to IFAD.

At the request of the GAO, IFAD management has carefully reviewed the draft report and provides its observations in this paper in two parts: Part I presents comments on the GAO Report while factual errors in data used are pointed in Part II.

PART I: SPECIFIC COMMENTS

Point 1: In paragraph 1 on page 2 in the Executive Summary, the GAO Report states "The International Fund for Agricultural Development (IFAD) finances projects designed to promote agricultural self-sufficiency in food deficit countries" (emphasis added).

See comment 2.

IFAD Comment: According to the Agreement Establishing IFAD adopted by the United Nations Conference on 13 June 1976 and the Fund's Lending Policies and Criteria adopted by the Governing Council at its Second Session, IFAD is to extend its assistance taking into consideration: (a) the need to increase food production in the poorest food-deficit countries; (b) the potential for increasing food production in other developing countries; and (c) the importance of improving the nutritional level of the poorest populations in developing countries and the conditions of their lives. IFAD is also supposed to assist developing countries in strengthening policies and institutions to achieve these objectives.

Point 2: In the same paragraph the GAO Report states "In line with a proposal from members of the Organization of Petroleum Exporting Countries (OPEC), IFAD was established as a specialised United Nations agency in 1977".

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See comment 3.

IFAD Comment: IFAD was established in 1977 in accordance with Resolution XIII of the 1974 World Food Conference which was supported by both developed and developing countries, including members of the OPEC.

Point 3: In paragraph 1 page 4 the GAO Report states "The scope of IFAD's role in project assistance has changed significantly since its early years. It was initially intended to function primarily as a funding agency, providing loans and grants for projects developed by other multilateral development agencies. Today, it develops its own projects and is involved in all phases of the project cycle. ... the expansion increased administrative and operating expenses and represented a significant departure from IFAD's original mandate to serve as a funding agency." This point is further elaborated in Chapter 2.

See comment 3.

IFAD Comment: This statement appears to arise from a misreading of the history of the establishment of IFAD and of the principles underlying its operations as laid down in the Agreement Establishing IFAD and in its Lending Policies and Criteria. Article 2 of the Agreement Establishing IFAD adopted by the United Nations Conference on 13 June 1976 and paragraphs 7 through 19 of the Lending Policies and Criteria adopted by the Governing Council at its Second Session in December 1978 define IFAD's mandate very clearly in terms of financing projects and programmes in developing countries to increase food production, reduce undernutrition and alleviate rural poverty. To this effect, IFAD is to finance projects and programmes, be these initiated by itself or selected from the pipeline of the cooperating institutions. Both the Agreement and the Lending Policies and Criteria go a long way to develop an operational framework for IFAD's project and programme financing, stipulating clearly that the Fund is expected to initiate and finance at least a part of its project portfolio.

For example, in describing IFAD's role in achieving the inter-related objectives of increasing food production, reducing rural poverty and improving nutrition in developing countries, paragraph 6 of the Lending Policies and Criteria asserts the importance of the Fund's initiative and of maintaining its own identity: "... That role requires IFAD to take initiatives and to cooperate with other multilateral and bilateral agencies... while ensuring the realization of the Fund's own objectives and establishings its own independent identity in the process. In all projects, cofinanced or independently financed, there would be systematic concentration upon the central objective - increased food production and reduction of rural poverty and hunger." Moreover, in citing means to pursue the production aspect of the Fund's objectives, the Lending Policies and Criteria states that "... IFAD must rapidly prepare for longer range projects, programmes and policy initiatives" (paragraph 10) (our emphasis).

In addition, in defining the Fund's role in carrying out the project cycle, IFAD's Lending Policies and Criteria paragraph 39 states that "... The Fund will seek to ensure that its Lending Policies and Criteria are applied uniformly and consistently over the project cycle - viz. project identification, preparation, appraisal, supervision, monitoring, follow-up and evaluation. The Fund will also make special efforts to shorten the project cycle... The Fund will ensure that appraisal standards are such as to minimize costs and delays at later stages and possible errors in project design." (paragraph 39). The document furthermore asserts that "... the Fund, while utilizing the services of international and regional institutions in project appraisal and the supervision of project implementation, will itself actively participate in these activities, in order to ensure the observance of its lending policies and criteria." (paragraph 40). In the context of strengthening the technical and institutional capacity for agricultural and rural development in the Fund's developing member countries, the Lending Policies and Criteria cites that the Fund will "... assist the country to undertake feasibility studies in agricultural projects related to IFAD activities and priorities, ... undertake special studies or pre-investment projects in problem areas, ... and assist countries more intensively at the project implementation stage, through special training for project management staff." (paragraph 29).

In other words, neither the Agreement Establishing IFAD nor the Fund's Lending Policies and Criteria suggest that IFAD was to provide loans and grants only for projects developed by other multilateral development agencies. Article 8 Section 2 of the Agreement defines relations with other organisations, institutions and agencies stating that the Fund shall cooperate closely with FAO, other Intergovernmental Organisations, International Financial Institutions, Non-governmental Organisations and Governmental agencies concerned with agricultural development. It goes no further about the terms of such cooperation and specifically says nothing about whether projects should be financed from the pipeline of other multilateral financial institutions. It is correct that the Executive Board anticipated that about 50% of IFAD projects would be drawn from the pipeline of other organisations. In fact, in the second year of operations in 1979, seven out of 21 projects or 33%, were initiated by the Fund itself. However, in full consultation and collaboration with the Board, the percentage of IFAD-initiated projects increased in subsequent years since it was concluded this was essential to assure full and proper focus on the poverty aspects of these projects. This became particularly important in the mid- and late-1980s because other multilateral financial institutions tended to move away from agricultural and poverty-related investments in order to support structural and sectoral adjustment programmes, making it even more difficult for IFAD to identify projects in the pipeline of these institutions which were properly poverty focussed. Thus, the percentage of IFAD-initiated projects, which had already reached 63% by 1980 climbed to 100% in 1991 and 1992. This trend of an increasing percentage of IFAD-initiated projects was fully supported by the Executive Board, which approves each project individually, involving the Board directly in the individual decisions concerning IFAD-initiated projects. The Board did urge that the Fund assure that the maximum possible levels of cofinancing be obtained for IFAD-initiated projects and this objective has been met. Acceptance of this growth in IFAD-initiated projects reflected the trend encouraged by the Governing Bodies to assure greater specificity and poverty focus in all Fund projects.

This increased percentage of IFAD-initiated projects did, of course, mean that IFAD had also to be involved in the various phases of project development (although, as indicated below, this did not include a direct role in project administration and supervision as implied in the comment by the GAO that IFAD became involved in "all phases" of the project cycle).

It is correct that this increase in IFAD-initiated projects, and involvement in various phases of project development, had a direct impact on the Budget. However, this increase in the Budget [illegible]e fully supported by the Executive Board as well as the Governing Council, which regularly gave unanimous approval to the annual budget submission. The Governing Bodies were thus fully aware that greater attention to project focus and impact required greater funding. They also recognised that this required additional staff. The Executive Board called for an independent analysis of personnel requirements. With funding provided by the Government of Canada, such a study was undertaken (known as the Mullin Report based on the person who directed the study). The Mullin Report made firm recommendations for additional personnel which were accepted by the Governing Bodies as the correct basis of a staff build-up, although the Executive Board urged that this be done over a period of two or three years. Most of the Mullin Report recommendations have been implemented, although the management of the Fund has refrained from proposing the establishment of all the positions recommended in that Report until further operating experience is gained.

Thus it is clear that the increase in IFAD-initiated projects, and the full budgetary implications thereof, were well understood and fully supported by the Governing Bodies of the institution. More recently, in the light of the achievements and lessons learned to date, there is agreement that there can now be somewhat more reliance on financing projects initiated by other institutions. However, the Executive Board has insisted that the Fund's special role and focus on poverty alleviation should not be diminished by any such change in policy - and therefore that only about 25% of projects should be drawn from other institutions. This shift back to financing some projects initiated by other institutions is being specifically incorporated into the 1994 Programme of Work and Budget which will be reviewed later this year by the Executive Board and the Governing Council.

With respect to loan administration and supervision, the Agreement Establishing IFAD specifically requires that these responsibilities be assigned to cooperating institutions. Thus, IFAD plays no role in loan administration and its role in supervision is secondary, providing complementary support through selective participation in supervision missions related to project impact. This limited role by IFAD ensures that the flow of project benefits go to the participants intended by project design. This limited Fund role was fully foreseen in paragraph 40 of the Fund's Lending Policies and Criteria, adopted by the Governing Council at its Second Session, which states: " The Fund, while utilizing the services of international and regional institutions in project appraisal and in the supervision of project implementation, will itself actively participate in these activities, in order to ensure the observance of its lending policies and criteria."

Some Governments have suggested that IFAD should take on a more direct role in project supervision, at least with regard to a portion of its portfolio. In a 1985 review of IFAD by the United States Agency for International Development, it was suggested that the Fund could improve its performance with a greater role in supervision. This is a subject which is still under study and no formal recommendations have yet been made to the Governing Bodies. However, the Executive Board has formally requested that a study of this issue be submitted to it so that recommendations could be made as to whether past policy (and the Agreement Establishing IFAD) should be revised for this purpose.

For all of the reasons given above, there does not appear to be any basis for stating that IFAD has strayed from its mandate through initiating itself an increased percentage of projects.

Now on p. 3.

Point 4: In paragraph 3 page 4, the GAO Report states "... projects financed by IFAD are similar to projects sponsored by other development organizations, such as multilateral development banks, and other U.N. agencies." This point is further elaborated in Chapter 3 where on page 38 the GAO Report states "... FAO provided $1.1 billion for agricultural and rural development and the World Food Program (WFP) provided $482.1 million for agricultural development in 1992. Also, the International Development Association (IDA) of the World Bank Group provided $1.8 billion in project loans for agricultural and rural development in 1991. Like IFAD, the International Development Association assistance is focused on very poor countries. Multilateral development banks also focus on poverty alleviation."

See comment 4.

IFAD Comment: The above statement tends to ignore the insistence of IFAD's Governing Bodies that the Fund should play a very specific role in rural poverty alleviation. Though IFAD's sectoral focus is on agriculture, within that sector it concentrates on the specific problems of smallholder farmers and the rural poor. Unlike other development banks and U.N. agencies, IFAD's projects and programme interventions are exclusively focused on the rural poor with the purpose of assisting them fully to exploit their productive potential by supporting the development of grassroots-based rural institutions of the poor themselves that enhances people's participation. The focus is on the rural poor as economically viable agents who can promote a growth process which can be diffused throughout the national economic and social structure. Far more than other institutions, the Fund pays particular attention to bridge the gap between their actual and potential productivity, which is substantial and which can be brought about if infrastructure, social and economic services and technological development are oriented in their favour. As noted further below, IFAD's approach to smallholder agriculture is thus quite different from the other institutions noted by GAO. It is noted, for example, that the GAO Report itself recognises that IFAD was the first institution to support agricultural extension and credit for women in many cases including Kenya and Zimbabwe.

The Fund has concentrated its efforts in areas where it has developed a clear comparative advantage vis-à-vis other financial institutions, for example: (a) dialogue with Member governments in order to further reorient policies and institutions in favour of the rural poor, especially women, taking due account of the productive contribution of the rural poor towards growth and stabilisation; (b) within the context of liberalisation of the economies of the developing countries, assisting the Member governments in policy articulation and institutional reforms so that private resources may flow to sectors dominated by the smallholders while priorities in the allocation of public investments are redirected towards creating the necessary infrastructure and social services in support of the rural poor, so that they are able to take advantage of new market opportunities; (c) emphasising investments for poor rural women, particularly households headed by women, by providing access to resources and technology, including health and education, as well as decision-making at various levels; (d) designing and implementing complementary interventions to protect the rural poor during the transitional phase of structural adjustment; (e) developing cost-effective approaches to the delivery of credit to the rural poor, including rural women; (f) evolving an especially innovative approach to research and extension drawing on the premise "lab-to-land" and "land-to-lab" which make the smallholders equal partners of researchers and extension agents in the development and diffusion of technology and which gives particular emphasis on the traditional crops of poor smallholder farmers; and (g) promoting positive linkage between environmental preservation and poverty alleviation.

A notable point about the specificity of IFAD's programmes are the frequent interventions of member governments in the Governing Bodies of other financial institutions, urging close collaboration with IFAD because of the Fund's stronger capacity to deal with poverty issues. The management of the World Bank has specifically recognised IFAD's leading role and called for greater cooperation for much benefit of both organisations.

Now on pp. 4-5.

Point 5: In paragraph 3 page 7, the GAO report states "When IFAD was established, it was anticipated that OPEC countries and OECD Member countries would, as a group, each contribute roughly one-half of IFAD's capital requirement." This point is further elaborated in Chapter 2.

See comment 5.

IFAD Comment: While during the discussions at the meeting of the Interested Countries, some delegations called for a rough parity in contributions between OPEC and OECD countries, there was never any formal agreement on this point. On the contrary, since the Initial Resources, in agreement with the OECD countries, the OPEC Members of IFAD have contributed less than 50%, the exact share in each replenishment being determined by the economic circumstances of these countries at the time.

See comment 2.

As for the question of uncertainty of IFAD's future funding in view of what the GAO report calls OPEC's reduced support, some factual clarification is needed. In terms of actual payment, the OPEC countries maintained a steady 38% share in total of the three categories under the Initial Resources and the First and the Second Replenishments. Under the Third Replenishment, the pledged share (payments are not yet completed) of OPEC countries dropped to 22% in the light of their deteriorating economic circumstances which led to a different framework of Replenishment with Category I countries agreeing to match separately the convertible currency contributions of Category III on a three to one basis. It has been acknowledged by all the members that the capacity of OPEC members has diminished due to very different economic circumstances. The question of relative contributions between industrial and OPEC countries is an issue currently being discussed in the context of negotiations on the Fourth Replenishment.

Now on p. 5.

Point 6: In paragraph 2 page 8, the GAO report states "IFAD officials said the agency needs USD 600 million over the next 3 years. Although GAO did not obtain IFAD's justification for this figure, IFAD and some Member country officials said that the organization needed about this amount to remain viable." The GAO report also states on page 29 that IFAD's funding outlook is "uncertain". These points are elaborated in Chapter 2.

See comment 2.

IFAD Comment: The USD 600 million proposed for the Fourth Replenishment of IFAD's Resources represents the gap between the projected internal resource reflows from net investment income, loan income and principal repayment in the replenishment period and resource requirement to meet yearly commitments at the level of USD 327 million in 1992 prices (average of 1990-1992) and an annual carry-over of one year equivalent of commitment at the end of the replenishment period. This has been laid out in detail in background papers submitted for consideration of the Consultation on the Fourth Replenishment on IFAD's Resources.

Now on p. 3.

Point 7: In paragraph 2 page 9, the GAO report states "Sustainability of projects, however, is a problem." The paragraph gives specific examples. This point is further elaborated in Chapter 3.

See comment 6.

IFAD Comment: An uneven project performance in the field, particularly in Africa, should come as no surprise to anyone given that this is the general experience of all development agencies under the evolving difficult circumstances confronting developing countries. One must also recognise that the sample of projects selected by GAO is very restricted, particularly in terms of concentration in one of the most difficult parts of the world that is Africa (eight out of 10 projects visited were in sub-Saharan Africa). IFAD has in fact given exceptional consideration to the issue of project sustainability. To this end, IFAD carefully works out long-term financial viability of activities financed by the project both from the point of view of the economy as a whole as well as that of individual farm households. The Fund carefully examines the returns of specific crops to farmers and the return to farm labour in relation to other activities. The Fund has made a substantial effort to minimise the direct recurrent cost burden, and where needed the Fund also seeks to encourage Governments to begin to bear these costs during project implementation. Most importantly, IFAD seeks to assure full participation by the beneficiaries in the design and maintenance of the activities it supports. It is the sense of ownership of the project by the beneficiaries themselves which best assures sustainability. Among other steps in this direction, the Fund includes measures for beneficiaries to assume partial and/or full responsibilities for the recurrent costs of specific activities. Measures are introduced to ensure cost recovery (water charges, payment for livestock services, etc.), institutional sustainability by developing self-reliant mechanisms at the grassroots (credit through groups, demand driven research and extension, farmers' groups and cooperatives undertaking marketing and management of cereal banks), and environmental sustainability (ensuring that no damage occurs due to project activities and providing for protection and enhancement of the environment) by combining production and environmental protection into packages readily accessible to the beneficiaries. Thus, the example given by the GAO report of a beneficiary group repairing a bridge is exactly what IFAD seeks to achieve in terms of beneficiary responsibility for sustainability.

PART II: FACTUAL ERRORS IN DATA USED

See comment 2.

Page 6, paragraph 1, line 4 should read: "... up from 75 percent as recently as 1985."

Now on p. 4.

Page 6, paragraph 2, line 6 should read: "... project funding levels from 13 percent to 17 percent during this period."

Page 7, paragraph 2, line 3 should read: "... but have decreased significantly since the Fund's initial $1 billion capitalisation and the first replenishment (recapitalisation) of the Fund in 1982 which totaled over $1 billion. The second replenishment in 1986 and the third in 1990 totaled

$569 million and $552 million, respectively."

Page 7, paragraph 3, line 6 should read "... The initial capitalisation **and the first and second replenishments** of the Fund generally met the OPEC and OECD participation goal, with OPEC countries **pledging** 43 percent **of total pledged contributions (and paying 38 percent of total paid contributions),** OECD countries **pledging** 56 percent **of total pledged contributions (and paying 61 percent of total paid contributions)** and developing countries **pledging and paying** about 1 percent. For the first replenishment, OPEC countries **pledged 41 percent of total pledged contributions (and paid 38 percent of total paid contributions),** for the second replenishment they **pledged and paid 38 percent of total. However,** for the third replenishment they **pledged only 22 percent of total pledged contributions (and have to date paid 19 percent of total paid contributions, however contributions for the third replenishment are still being paid in)."**

Page 16, paragraph 2, line 3 should read: "OECD countries agreed to donate **56** percent and OPEC countries 43 percent of this amount, **with other developing countries donating the remaining 1 percent."**

Page 22, paragraph 3 line 1 should read: "... IFAD **in the first two years** heavily support projects of other organisations."

Now on p. 15.

Page 22, paragraph 3, line 8 should read: "... In contrast, **75** percent of the projects financed by IFAD in 1985 were IFAD-initiated projects."

Now on p. 15.

Page 25, paragraph 2, line 3 should read: "... increased from $30.3 million in 1988 to **$48.5** million in 1991 or **60** percent."

Now on p. 16.

Page 26, Table 2.1: Operating Expenses as a Percentage of Loan and Grant Commitment (1988-91). Figures should read as follows:

Now on p. 17.

(Current Prices - USD million)

Year	Loan and grant commitment	Administrative and operating expenses	Percentage
1988	242.6	**30.3**	**12.5**
1989	272.4	**32.5**	**11.9**
1990	322.5	**41.9**	**13.0**
1991	280.9	**48.5**	**17.3**

Now on p. 19.

Page 30, paragraph 1, line 4 should read: "... billion, **$569** million, and $552 million, respectively."

Now on p. 19

Page 30, paragraph 3, line 5 should read: "... Since **the second replenishment,** however, pledges from OPEC countries have fallen off sharply. In the third replenishment, their share of the funding was just **22 percent** of **pledged contributions, while their share of paid contributions to date is 19 percent, however payments under the third replenishment are not yet concluded."**

Now on p. 20.

Page 31, Table 2.4: Contributors to IFAD. Figures should read as in the attached table.

Now on p. 19.

Page 44, paragraph 2, line 6 should read: "... with OPEC countries contributing only 22 percent of the third replenishment."

Now on p. 35.

Appendix II, page 53, Table II.1: IFAD Projects GAO Visited - the loan amount figures for the following projects should read: "Zimbabwe - National Agricultural Extension and Research Project - USD 12.4 million, Kenya - National Extension Project - USD 5.0 million, Kenya - Kwale and Kilifi District Development Project - USD 8.7 million."

Now on p. 35.

The footnote to the same table should read: "Amount represents only the IFAD contribution. **Except for the Ghana, Smallholder Rehabilitation and Development Project, all other projects received funds from cofinancing institutions and except for the Regional - Agricultural Management Training Programme for Africa grant, all projects include funding from host governments.**"

Now on p. 40.

Appendix II, page 61, paragraph 2, line 2 should read: "... the World Bank initiated the Agricultural Credit and Export Promotion Project in 1990."

The following are GAO's comments on IFAD's letter, dated June 22, 1993.

GAO Comments

1. We agree that neither the Agreement to Establish IFAD nor its Lending Policies and Criteria define IFAD as a "funding agency," and our report has been modified accordingly. While its charter provides considerable latitude with respect to how the organization funds and manages its projects, the historical record indicates, and State and AID officials said, that the U.S. government agreed to participate in IFAD with the understanding that it would have limited involvement in project design and implementation; serve basically as a funding agency, selecting loans and grants to projects developed by other multilateral agencies; rely on the multilateral development institutions to appraise and supervise the implementation of its projects; and maintain a small staff and limited administrative overhead expenses. Today, IFAD develops its own projects and is involved in all phases of the project cycle.

2. The report has been modified to reflect these comments.

3. According to State and AID officials, and as indicated by the historical record, the U.S. government initially agreed to participate in the Fund with the understanding that IFAD would have limited involvement in project design and management; serve primarily as a co-financing or funding agency; and provide loans and grants for projects developed by other multilateral agencies, primarily the multilateral development banks. The understanding was that this would enable IFAD to keep its staff very small and its administrative operating expenses low. During its early years, IFAD generally followed this mode of operation.

4. Some projects financed by other multilateral and U.N. agencies are similar to those financed by IFAD because they focus on poverty alleviation among very poor populations in food deficit countries. However, during our site visits, some recipients and host country officials told us that the IFAD intervention provided them the kind of involvement in project design and management that other international organizations do not provide. This is cited in our report.

5. Although there was no formal agreement on a set percentage for member groups' contributions, the United States has maintained that OPEC countries should contribute roughly the same level they pledged for the initial capitalization. It should be noted that for the initial capitalization and the first and second replenishments, OPEC countries pledged 43, 41,

and 38 percent, respectively, but in each case provided 38 percent. For the third replenishment OPEC countries pledged 22 percent in 1990, but to date have provided only 19 percent. The rough parity called for by some delegations, including the United States, seems to have been lost.

6. Although the sustainability of projects may be a concern for all development agencies, it is nonetheless an important issue that deserves the proper attention from IFAD management.

Comments From the Agency for International Develoment

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

JUN 24 1993

Associate Administrator for Finance and Administration

Mr. Frank C. Conahan
Assistant Comptroller General
United States General
Accounting Office
441 G Street, N.W. - Room 5055
Washington, D.C. 20548

Dear Mr. Conahan:

I am pleased to provide the Agency for International Development's (A.I.D.) formal response to the draft GAO report entitled MULTILATERAL FOREIGN AID: U.S. Participation in the International Fund for Agricultural Development (GAO Code 472271).

The report raises a series of questions which are important for the future of International Fund for Agricultural Development (IFAD), and it makes recommendations for A.I.D. action which are entirely appropriate for A.I.D. in our role as lead agency for IFAD. Our comments on the main issues discussed in the GAO report are outlined below; technical comments are provided as an enclosure.

See comment 1.

IFAD's Original Mandate

We agree that A.I.D., working with other U.S. agencies, should determine whether IFAD's mission and capitalization need to be reexamined. As part of this effort, we will continue to encourage IFAD management to produce a detailed analysis of the costs and benefits of various operational procedures (including alternative degrees of reliance on cooperating institutions for project supervision) for Executive Board consideration.

See comment 2.

Although the idea of IFAD as a "funding" institution was discussed during the institution's preparatory conferences, a number of founding members did not accept this view. Consequently, IFAD's articles of agreement do not mandate that IFAD serve simply as a funding institution. The restrictions on operations in IFAD's basic documents instead contain ambiguities which reflect the difference of opinion which existed among the institution's founders.

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We see the possibility of both positive and negative effects from a return by IFAD to a narrower interpretation of its operational limitations. On the positive side, co-financing projects designed and implemented by other institutions is an efficient means for keeping costs low, avoiding duplication of effort, and minimizing staff requirements. On the other hand, we can understand why efforts to fulfill its principal development purpose have led IFAD to more direct involvement in project design and supervision. Other multilateral institutions have broader goals than IFAD, and many of their project designs are not targeted to the beneficiary group that IFAD must address in order to fulfill the goals outlined in its charter. In addition, project implementation capability is not as widespread as IFAD's founders may have assumed. The recent report of the World Bank's Task Force on Portfolio Management ("Effective Implementation: Key to Development Impact") details the project implementation problems that one of IFAD's most widely respected cooperating agencies has had. The question of IFAD's operational scope will clearly be one requiring careful study by the United States and other IFAD donors.

OPEC's Role

We agree that the United States should seek to restore OPEC's role as a full partner in funding IFAD. All of our efforts in negotiations on the Fourth Replenishment have been directed toward this objective. However, as IFAD is a multilateral agency, the United States will need to give due regard to the views and financial contributions of many other participants, including developing country contributors, in funding IFAD.

Sustainability

We agree that the United States should work with IFAD to help assure that projects financed by the organization are sustainable after external support ceases. This is a particularly challenging objective for IFAD given the institution's focus on the very poorest recipients, often located in remote rural areas. IFAD has made increased efforts to find solutions to its particular sustainability problems in recent years.

Administrative Costs

We think that IFAD, along with many other multilateral organizations, should maximize its efforts to hold down administrative costs. As the report notes, some factors in the growth of IFAD's administrative costs (such as wages and benefits and fees of cooperating institutions) have been outside IFAD's control, while others relate to IFAD's increased involvement in project design and supervision. It should be noted, however, that for many years IFAD has financed administrative expenses entirely from investment income, not from increased donor contributions. Most IFAD staff increases were endorsed by an independent study sponsored by the Canadian Government (the "Mullin Report") which has served to guide subsequent staff changes.

A.I.D.'s Role

We agree that, in those cases where they have not already done so, A.I.D. missions should be directed to become knowledgeable of IFAD activities and to provide appropriate advice to A.I.D./Washington and to the U.S. Executive Director in Rome. We note that a number of missions have given high priority to upcoming IFAD projects and have formulated thoughtful analyses which have been of great value in U.S. interventions with IFAD management. In countries where there has not been adequate attention to IFAD projects, we will make our best efforts to ensure that IFAD proposals are adequately reviewed, consistent with A.I.D.'s in-country presence and staff capacity.

As a final comment, based on our experience with other international financial institutions and other U.N. agencies, we believe that IFAD adds a unique element to the international assistance effort. While many development institutions are involved in poverty alleviation and rural development, the content of their programs can vary enormously as to types of interventions used and individuals reached. IFAD's emphasis on beneficiary participation with extremely careful targeting of the very poorest rural groups is laudable, and IFAD's work with poor rural women and credit (pages 35-36 of the GAO report) is an especially noteworthy contribution. Now that other larger multilaterals are increasing their attention to poverty alleviation, IFAD's value as a testing ground for new approaches to poverty problems may receive wider recognition.

Thank you for the opportunity to respond to the GAO draft report. We appreciate the effort and cooperative spirit that your staff demonstrated as they worked with us during this review.

Sincerely,

Richard A. Ames

Richard A. Ames
Chief Financial Officer

Enclosure: As stated

The following is GAO's response to the Agency for International Development's (AID) comments dated June 24, 1993.

GAO Comments

1. We have not reproduced the technical notes provided by AID; however, we have made all of the changes suggested by AID in those notes.

2. We have modified our report to recognize that IFAD's charter does not mandate that it serve simply as a funding agency and that it has substantial latitude in implementing its programs. Nonetheless, when the U.S. government agreed to participate in IFAD it anticipated that IFAD would have limited involvement in project design and implementation, serve basically as a funding agency, selecting projects developed by other multilateral agencies; rely on the multilateral development institutions to appraise and supervise the implementation of its projects; and maintain a small staff and limited administrative overhead expenses. Today, IFAD develops its own projects and is involved in all phases of the project cycle.

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

JUN 18 1993

Dear Mr. Conahan:

Thank you for the opportunity to comment on your draft report, "MULTILATERAL FOREIGN AID: U.S. Participation in the International Fund for Agricultural Development," GAO Job Code 472271. Comments are enclosed.

If you have any questions concerning this response, please call Jane Buchmiller, EB/IFD/ODF, at 647-9466.

Sincerely,

Roger Gamble

Roger R. Gamble, Acting

Enclosure:
As stated.

cc:
GAO - Mr. Richardson
State - Ms. Buchmiller

Mr. Frank C. Conahan,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

GAO Draft Report: "MULTILATERAL FOREIGN AID: U.S. Participation in the International Fund for Agricultural Development," GAO Job Code 472271

We appreciate the opportunity to comment on the GAO's draft report on the International Fund for Agricultural Development (IFAD). We agree with the report's conclusion that the U.S. role in IFAD should be re-examined if the Fourth Replenishment fails to bring OPEC back to its former partnership role in funding the institution. In that event, a suspension of U.S. contributions to IFAD should be but one of various options considered. Other conclusions included in the report require more complete exposition of the basis on which they were drawn.

EVALUATION OF IFAD'S MANDATE

See comment 1.

The GAO report points out that IFAD has evolved into another development agency and is no longer just a funding agency. However, the report does not sufficiently evaluate IFAD's justifications for developing its in-house capabilities and involving itself directly in project design, implementation, and evaluation. IFAD was originally established in order to increase food production, incomes, and nutritional levels of the poorest of the developing world's rural poor, and the GAO report indicates that IFAD has faithfully devoted its resources to that end. The GAO report might further explore the extent to which that expansion proved necessary for IFAD to meet its original purpose. For example:

- o the GAO noted that IFAD considered necessary increased supervision of projects (p. 25), which, in fact, some donors believe has made the Fund especially effective and innovative in its operations (pp. 28-29);
- o expenditures for fees charged by cooperating institutions increased 50 percent from 1988 to 1991 and, with the exception of UNDP, promise to keep escalating (pp. 7, 25-27); and
- o other contributing factors to increased staffing and administrative costs -- i.e., a larger portfolio, initiatives approved by the Board, etc. -- require further consideration.

The GAO could also better distinguish IFAD's contributions from those of similar development agencies, such as the World Bank's International Development Association (IDA).

IFAD PROJECT SUSTAINABILITY

See comment 2.

All development organizations contend with problems such as sustainability and recurrent costs. They are inherent in and inseparable from the very difficult process of development. Since IFAD's work is concentrated in the poorer countries, considerable difficulties implementing some IFAD projects might be expected.

Now on pp. 22 and 24.

See comment 3.

The GAO report notes that IFAD projects have had mixed results (p. 37), but it does not define the criteria upon which "success" was determined. This is essential in order to understand the report's conclusions.

It would also be useful to include data to determine whether IFAD projects have been more or less effective than those of other donors or whether they filled a void in donor assistance. The evaluators might review UNDP or World Bank projects in IDA countries or programs of other IFAD cooperating institutions.

OUTLOOK FOR IFAD FUNDING

The GAO correctly notes that the U.S. role in IFAD should be re-examined if the Fourth Replenishment fails to bring OPEC back to its former partnership role in funding the institution.

See comment 4.

However, the GAO report might have included a more complete analysis of funding. Which cost components fall within IFAD's control, and which others do not? Are evaluation costs pushing up expenditures due to either a larger project portfolio or higher fees charged by cooperating institutions? Did IFAD's Board broaden the Fund's scope to include issues such as women in development or the environment, and if so, what costs might be attributed to such decisions?

FACTUAL OMISSIONS AND ERRORS

Now on p. 20.

- Figures given for the Third Replenishment are incorrect (p. 31), including the percentage pledged by OPEC which is repeated throughout the report (pp. 8, 22, 30, 44). Replenishment figures are based on the amount pledged by IFAD members, not on the amounts paid to date. Furthermore, IFAD has revised the figures from the table on p. 31.

Now on p. 11.

- Although voting power in IFAD is distributed evenly among the three categories of members, the voting power within Categories I and II is weighted according to members' contributions. The United States is the largest contributor within Category I, while Saudi Arabia is the largest within Category II. These two donors, therefore, have greater leverage within the voting structure of IFAD than what the GAO report suggests (p. 17).

Now on pp. 26-27.

- A distinction should be made regarding the extent of AID missions' involvement with IFAD projects and that of the Agency as a whole (p. 40). Both AID/Washington and the AID USED to IFAD are actively engaged in reviewing project proposals and formulating policy, even if resource constraints limit the involvement of AID missions in specific IFAD projects.

Now on p. 26.

- AID has provided "parallel" financing -- not "co-financing" for some IFAD projects (p. 40).

Now on p. 26.

Now on p. 26.

- "Working Group on Multilateral Agencies" (WGMA) should read "Working Group on Multilateral Assistance" (pp. 3, 40).

- The Department of the Treasury does not distribute IFAD loan proposals to members of the Working Group on Multilateral Assistance (WGMA - p. 40). The AID USED to IFAD sends the loan documents to AID/Washington, which in turn distributes them to WGMA members.

Now on p. 26.

- Treasury and other members of the Working Group on Multilateral Assistance do review IFAD loan proposals (contrary to the statement on p. 41) but also recognize AID's role as the lead agency on IFAD by relying upon AID to do the more in-depth analysis and evaluation of project proposals.

Now on p. 26.

- The Working Group on Multilateral Assistance includes -- in addition to those members named on p. 41 -- the Interior Department's Bureau of Mines, the White House's Council on Environmental Quality, the Environmental Projection Agency, the Departments of Transportation, Labor, and Commerce, the U.S. Trade Representative, and the Federal Reserve Board.

Now on p. 5.

- Only a portion of the UN Food and Agriculture Organization, World Food Program, and World Bank resources mentioned were focused on poor farmers in food deficit countries (p. 9). Unlike other donors, IFAD has an exclusive mandate to raise food production, incomes, and nutritional levels of the rural poor -- farmers, landless laborers, nomadic pastoralists, women, and other poor sections of rural populations.

- "Replenishment" -- not "recapitalization" -- is the correct term with respect to the concessional lending IFAD does (pp. 7, 10).

The following are GAO's comments on the Department of State's letter dated June 18, 1993.

GAO Comments

1. Our report does explain why IFAD management believed that IFAD needed to develop an in-house capability and become involved directly in project design, implementation, and evaluation. For example, IFAD officials said that cooperating institutions fees for supervising the implementation of projects were too high, that they often did not provide specific feedback on projects, and that their supervision was inadequate and too infrequent. However, IFAD's solution to these problems substantially increased its administrative costs and expanded its role beyond what was initially envisioned.

2. Our report was modified to give greater recognition to the fact that sustainability and recurrent costs are inherent problems in the development process. However, we believe that it is an important issue that warrants proper attention.

3. We did not label projects as successes or failures. Instead, as we indicated in our report, we reported the findings of the cooperating institutions. The cooperating institutions used their own criteria, plus criteria established by IFAD to determine if the projects met their objectives during the life of the project. Also, during our field visits we observed some projects that were clearly experiencing more problems than others; however, because evaluation criteria should be defined before projects begin, we did not label the projects that did not meet their objectives as failures.

4. We have updated or modified the report based on these comments.

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