

31 July 2009

Dear Ms. Alexia Latortue,

Thank you for your letter of 6 July and the rigorous evaluation of IFAD's internal systems in rural finance as part of the SmartAid for Microfinance Index 2009.

We appreciate the excellent work of CGAP and the experts who joined the SmartAid review and would like to take this opportunity to emphasize, once again, IFAD's commitment to continuously improving the effectiveness of its investments in rural finance. It is clear that the assessment of our internal management system, policies and procedures and your detailed recommendations will help us focus on the key areas that need improvement, building on our strengths and comparative advantage.

Reflecting specifically on the three key indicators for which IFAD scores lowest, and in fact below the average score of all participating funders (e.g., our investment in human resources; the use of performance-based contracts with financial institutions participating in IFAD-supported rural finance projects; and our instruments to support the development of local financial markets), we would like to make the following points.

As rightly stated in the report, IFAD has made significant changes to its corporate policy on rural finance operations. In April 2009, the IFAD Executive Board requested that the new IFAD Rural Finance Policy be implemented through the systematic strengthening of in-house capacity. We will fulfill this obligation and have already started working on a dissemination and capacity development strategy which includes the training of country programme managers and in-country staff.

In terms of performance based contacts, all designs for IFAD-supported rural finance projects and programme components that recently went through quality enhancement reviews were requested to base their cooperation with retail finance institutions on performance-based contracts. They were also asked to incorporate social performance indicators into their regular monitoring and evaluation practices and adopt the Client Protection Principles.

It would also be important to recognize that IFAD is quite different from the other organizations involved in the SmartAid review. While IFAD is an international financial institution that mainly provides loans to governments, other organizations may primarily use grants to support microfinance. In assigning weights to the different indicators of the SmartAid, we would hope the variations in the specificity of the different donors and investors would be taken into account.

Finally, it would be extremely useful for us to engage in a dialogue with you and your colleagues on these findings and the way forward. We would therefore welcome the opportunity to organize a seminar here at IFAD in September or October to discuss this further, according to your availability.

As IFAD always promotes transparency with its members, partners, and the international development community, we are happy to offer our consent for public disclosure of the IFAD results.

Once again, thank you for your continued cooperation and support.

Yours sincerely,



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