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PREVIEW OF THE PROGRAMME OF WORK AND BUDGET OF IFAD FOR 1999



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I. INTRODUCTION AND HIGHLIGHTS

1. Through twenty years of operations, the Fund has developed a significant level of experience in instruments for *in situ* poverty alleviation, and a great many rural poor have benefited from IFAD activities. Unfortunately, a great many more have not had this opportunity. In this decade, the organization has been forced to confront an evolving international development environment, with a greater emphasis on measurable impact, shifting causes and concentrations of poverty, and an increasingly difficult resource-mobilization situation. Given this increasingly diverse and complex reality, IFAD must intensify its efforts to clearly define its sector of expertise and identify fundamental initiatives for the future.

2. In 1997 IFAD adopted a corporate strategy framework for the institution as a whole following an intensive in-house effort to develop a clearer focus on its core mandate of eradicating rural poverty. Five strategic thrusts were identified in the course of a year-long participatory process that defined the tenets of the strategy:

- support projects and programmes driven by beneficiary participation in both design and implementation;
- create an effective portfolio management system that ensures desired field-level results;
- ensure an effective IFAD presence and impact at the field level by: (a) maintaining a credible level of lending (in real terms); and (b) expanding IFAD's outreach;
- establish and use knowledge networks on rural poverty in order to create a recognized knowledge organization; and
- develop human resource and management systems that support accountability, teamwork and decentralized decision-making, and other goals.

3. These are the *de facto* medium-term objectives that the Fund has set for itself in order to help IFAD's organizational units work together in achieving their jointly developed goals. The critical element in this process is recognizing the linkages among these units to ensure greater collaboration, higher quality outputs, and a more results-oriented culture within the institution. The focus in 1998, as the first full year of implementation of the corporate strategy, is on monitoring the achievement of the annual targets within the strategic framework.

4. The 1999 process is also under way, and the Programme of Work and Budget is being defined in tandem with the revision and natural development of the corporate strategy. In this manner, the institution is better able to tie its day-to-day operations to the longer-term *IFAD's Vision* and to the Fund's final objective of helping alleviate and eventually eradicate global rural poverty.

5. It is proposed that the 1999 Programme of Work be contained at a level similar to that of 1998, in real terms, and that the administrative budget show zero real growth.

6. With regard to the mobilization of resources, it is to be recalled that Resolution 87/XVIII of the Governing Council on the Fourth Replenishment of IFAD's Resources was completed in January 1997, after six years of protracted negotiations. This was followed by effectiveness on 29 August 1997, when instruments of contribution deposited against pledges amounted to USD 216.4 million, in excess of the 50% required by the resolution, only six months after its approval. This was the quickest time to effectiveness in IFAD's history. As of 30 June 1998, instruments of contribution, including payments in cash and promissory notes against pledges not supported by instruments of contribution, amounted to USD 393.3 million, i.e., 93.73% of total



pledges of USD 419.6 million. Total payments in cash and promissory notes against the Fourth Replenishment amount to USD 201.3 million equivalent. These facts are historically unprecedented achievements. During this period Member States also embarked upon a major effort to create a more secure financial basis for the Fund. Streamlining of the future resource requirements process was the main objective. To this end, a number of modifications of the governance structure of IFAD were agreed upon. It is an opportune time to consider the future financial needs of IFAD. Consequently, a plan of action towards this objective is outlined under the Operating Strategy section of this document.

II. 1998 CORPORATE STRATEGY IMPLEMENTATION TO DATE AND EFFECT ON 1999

7. The Programme of Work of IFAD for 1998 was based on the adopted corporate thrusts and objectives. Scorecards developed by all operational units contained specific yearly targets in relation to the adopted thrusts. The scorecards, adopted after a thorough discussion of their appropriateness to the approved thrusts and objectives and their consistency with each other, provided the basis for monitoring achievements and ensuring inter-unit coordination.

8. Thus far, the Fund has progressed well in terms of achieving the objectives laid out in its scorecard. Notable progress has been recorded in:

- (a) initiating preparations for resource mobilization through preparation of detailed country profiles and creation of databases;
- (b) mobilizing supplementary funds to support project development activities in order to make projects responsive to changing field conditions;
- (c) housing the Global Mechanism of the Convention to Combat Desertification (CCD), with the negotiation of the Memorandum of Understanding between IFAD and the United Nations Development Programme (UNDP) completed, the interview process for the managing director advanced and a financial commitment for the operational budget in hand;
- (d) setting up databases on non-governmental organizations (NGOs) and making the necessary preparations for setting up community-empowerment facilities;
- (e) taking necessary action to build local capacity through systematic training programmes at the field level;
- (f) reinforcing project development and monitoring processes through training in and adoption of a logical framework (logframe) approach;
- (g) opening up systematic dialogue with cooperating institutions (CIs) to ascertain an annual supervision programme and ensuring effective supervision of projects;
- (h) undertaking the necessary preparations for direct IFAD supervision;
- (i) linking up with global initiatives;
- (j) automating accounts payable and procurement systems;



- (k) developing and expanding information technology software and hardware;
 - (l) implementing the human resources strategy, which necessitated completion of tasks such as competency models, job classifications, management training, etc., aimed at fuller development of the human resources and management systems; and
 - (m) increasing efficiency in the area of governing body documentation (both in numbers and quality); this has been done through budget reduction, promoting cooperation with other Rome-based agencies with regard to the timing of meetings, improved library services and publications.
9. At the current pace of implementation, it is expected that the remaining targets will be met during the year, and a basis will be created to attain the overall corporate strategic objectives in the medium term.
10. Certain areas, however, will require renewed emphasis and increased attention in 1999. Two of the most important are:
- (a) Improving ways and methods of ensuring the participation of the poor in project design and implementation. While action has been initiated in 1998, the approach will require fine tuning; additional resources will be required to ensure that the poor have the motive, skills, necessary information and therefore willingness to participate in design and implementation.
 - (b) Strengthening IFAD capabilities to improve its portfolio performance in terms of the identification of problem projects and provision of the necessary backstopping to ensure that such projects are put back on track.
11. In terms of its corporate objectives, other areas to which IFAD will need to devote increased attention in 1999 are:
- (a) Future resource requirements-related activities. Necessary preparations have been initiated and 1999 will see a significant increase in activities in terms of donor consultations and preparation of the necessary documents and logistics to support this activity.
 - (b) Mobilization of supplementary sources of funds. IFAD will put renewed emphasis on a programmatic approach to mobilizing supplementary sources of funding. This will require the articulation of a support framework in specific circumstances, identification of potential donors and consultations for developing and merging strategies with donors, and developing programmes and projects within IFAD's mandate that can attract donor support.
 - (c) Partnership with the private sector. Ground work has already been laid in 1998 to prepare a framework for support; this work will be continued in the coming year with a focus on the human face of development for the poor.
 - (d) Further automation and use of advanced information technology to increase the Fund's efficiency and to enable it to serve and retrieve information to and from others on a real-time basis.



- (e) The Global Mechanism initiative. With the housing of the Global Mechanism in IFAD and the appointment of the managing director, the Fund can look forward to developing a significant programme for combating desertification. IFAD will work closely with the Secretariat of the Global Mechanism to ensure that a significant beginning can be made towards the objectives.

Strategic Linkages/Cofinancing

12. IFAD is carefully defining a strategic mix of operations in order to achieve its long-term goal of becoming an established knowledge organization in rural poverty eradication. This implies a multi-tiered operational approach that includes developing innovative or pilot projects, testing new methodologies, participation in policy-oriented programmes and an emphasis on cofinancing project activities.

13. An example of support for innovative projects is the recently approved grant for Electronic Networking for Rural Asia/Pacific Projects (ENRAP), which connects IFAD projects in Asia, CIs, IFAD Headquarters and regional research institutes. ENRAP will strengthen project management and create local networks, thus improving project sustainability at the local level. In this manner, the needs of project managers and beneficiaries will eventually drive the information and communications activities among projects and between them and IFAD.

14. In the area of policy-oriented activities, the first phase of the Knowledge Network on Civil-Society Initiatives in Land Reform and Tenurial Security has been completed, with seven regional and 23 national nodes connected. Furthermore, IFAD is a promoting partner of the Negotiated Land Reform Network (NERALEN), which has been launched with the Food and Agriculture Organization of the United Nations (FAO) as the focal organization.

15. As of September 1998, IFAD expects to cofinance a total of four projects from the pipelines of cooperating institutions and will attract cofinancing for a total of ten IFAD-initiated projects. These levels are lower than those achieved in recent years. We are therefore reinforcing our efforts to ensure that we maintain and, in fact, improve the level of cofinancing and build stronger strategic linkages with our development partners in order to maximize the impact of our operations in support of the poor.

16. IFAD project development and operations are guided by country and regional strategy frameworks, and by an interdepartmental consultative and review process. At present, the Fund is concentrating on further articulating its country strategy efforts. By September 1998, 12 country strategic opportunities papers (COSOPs) will have been prepared. The concept of the project development team (PDT), bringing together relevant expertise from all units, has now been institutionalized, and PDTs are active in the development of all projects.

III. OPERATING STRATEGY AND CORPORATE WORK PROGRAMME

A. Operational Strategy

17. The main elements of the Fund's operating strategy in 1999 will include:
- continuing the focus on well-defined poverty groups and gender awareness;
 - cofinancing – strengthening efforts to mobilize resources in support of the poor;
 - ensuring the participation of the poor;



- strengthening the focus on Africa;
- strengthening the information base on the poorest of the poor;
- strengthening portfolio management to increase impact on the poor;
- Heavily-Indebted Poor Countries Debt Initiatives (HIPC DI); and
- the Flexible Lending Mechanism.

Continued Focus on Well-Defined Poverty Groups

18. IFAD projects in 1999 will continue to focus on the poorest of the poor: the landless and the near landless, marginal farmers, small-scale artisanal fishermen, indigenous populations, displaced groups and women. IFAD recognizes that poverty afflicts various groups differently depending on the nature of the evolving macro and microcircumstances. Emphasis will therefore be placed on identification of the poor and their specific characteristics through field surveys in order to capture the changing boundaries and perceptions of poverty. Sharpening IFAD's focus on the poor in view of the changing dynamics of poverty will thus be the cornerstone of IFAD's operations. An inclusive strategy, within its mandate and resources, will enable IFAD to offer longer-term, sustainable poverty alternatives to the poor. The scorecard for 1999 will ensure that all projects are designed to take gender issues into account and that women are increasingly present and active in project-related decision-making bodies.

Cofinancing – Mobilizing Additional Resources in Support of the Poor

19. The Fund will continue to stress the importance of cofinancing as a method of creating and enhancing strategic and operational linkages with other multilateral institutions in order to augment the flow of resources to the poor. While recognizing the difficulties involved in raising cofinancing from bilateral and multilateral donors, the Fund will continue to select projects from the pipelines of cooperating institutions when suitable opportunities, in line with IFAD's mandate, are identified. It is expected that a meeting with the World Bank will take place in the second half of 1998 to discuss issues regarding our future collaboration, including cofinancing. A combination of programming approach, flexible lending operations and selective grant activities will be pursued to ensure that the targets regarding cofinancing and the scaling up of innovative IFAD projects are achieved.

Participation of the Poor in the Development and Implementation of Projects

20. IFAD's key thrust in 1999 will be its emphasis on sharpening methodologies for ensuring increased participation of the poor in the development and implementation of projects. This approach will follow a number of simultaneous tracks: (i) supporting policies and programmes of decentralization to the benefit of the poor; (ii) developing and instituting participatory monitoring systems, thus enabling IFAD to ensure the involvement of the poor in project design and implementation; (iii) ensuring the involvement of the poor in the decision-making process of projects; and (iv) building capacity and providing critical training so that the poor can effectively participate in articulating their needs and translating them into projects and components.

Focus on Africa

21. An important element of IFAD's operational strategy will be to increase its emphasis on the African continent in terms of its lending operations and project activities. Efforts will be made to restore the lending level in Africa in view of last year's slippage (in addition to the plans submitted to the Executive Board last year). This will require extra effort in terms of project preparation activities and pipeline development in line with the critical needs of the regions. The grant programme will support activities towards developing a strong and responsive lending programme. Development of



grass-roots institutions at the field level will also be required to ensure that these can effectively fill the gaps left by the pulling back of state institutions.

Information Base on the Poor and IFAD's Project-Related Database

22. Development of quality projects and their successful implementation requires access to relevant and up-to-date information on IFAD's target groups and various implementation parameters. IFAD has already initiated a corporate database on aspects related to project portfolio management. The objective is to make on-line information available to authorized users on a real-time basis. This information will also be linked to the databases of the cooperating institutions, so that up-to-date information on project status and its impact on the poor is available in order to take corrective action as and when required. The operating strategy in 1999 focuses on fine tuning of this database, with timely input of relevant data, and ensuring that its coverage and depth serve the stated objective and meet corporate requirements.

23. IFAD will also strengthen its effort to make information on rural development and poverty alleviation available to the poor and to development practitioners through further elaboration of this information network. The experience with FIDAMERICA will be replicated in other regions, and modern information technology and multimedia channels will be used to support this objective.

24. At the same time, the Fund will identify key information on the identified poor and make it available to a wide audience to increase awareness of the nature and causes of poverty, mobilize resources and encourage others to take actions for rural poverty alleviation.

Project Portfolio Management

25. One of the primary objectives of IFAD's corporate strategy is to ensure that projects and programmes supported by IFAD have the desired field-level results. Accordingly, and in response to the recommendations of the report of the Joint Review on Supervision Issues for IFAD-Financed Projects, IFAD is giving increasing importance to the management of its portfolio. As a result, the portfolio review process is being intensified within the Fund and between IFAD and its cooperating institutions. The new process involves assessing implementation progress and disbursement performance; detecting critical project-specific and generic problems; identifying remedial actions for follow-up in collaboration with cooperating institutions; and, finally, generating and managing knowledge from past performance for future project design. Training in the use of logframes will continue and, *inter alia*, will be used to define more focused performance indicators for project management and measurement of project results.

Heavily-Indebted Poor Countries Debt Initiative

26. Including the proposals for IFAD's participation in the HIPC DI to be considered by the Executive Board at its September 1998 Session, by the end of 1998 the Fund will have committed itself to net present value (NPV)-of-debt relief for six countries (Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mozambique and Uganda). It is expected that Guinea and Mali could reach "decision point" towards the end of 1998 or early 1999, with "completion point" at the end of 1999 and 2001, respectively. Additional countries expected to come forward in the coming months could include: Chad, Ethiopia, Guinea, Mauritania, Togo and Viet Nam. But not all of these countries would be expected to require assistance under the HIPC DI. The first six HIPC DI interventions alone imply an estimated nominal debt relief for IFAD of SDR 4.3 million for 1999 and SDR 3.7 million for 2000. The financial implications of additional HIPC DI initiatives will become known as the debt sustainability assessments evolve, and the Executive Board will be kept fully informed. These resources constitute assistance to the countries in addition to the regular programme of work. As a consequence of the HIPC DI, future loan reflows will be reduced from the countries in question, thus



implying the need for additional resources. Originally, the upper ceiling of the costs of IFAD's participation in the HIPC DI was estimated at USD 60 million. While the debt burden of Benin and Senegal have been assessed as sustainable, some other countries (e.g., Bolivia and Mozambique) have come in with fairly high levels of debt-relief requirements. In addition, discussions are going on that could result in: (a) broadening the outreach of the HIPC DI to additional countries; and (b) deepening the HIPC DI, i.e., providing higher levels of debt relief. This will increase IFAD's corporate resource requirements from 1999 to 2002. The Netherlands' complementary contribution to the Fourth Replenishment, equivalent to approximately USD 15.4 million, will assist the Fund in honouring its HIPC DI commitments, but more resources may be required.

Flexible Lending Mechanism

27. Contingent on Executive Board approval of the Flexible Lending Mechanism (FLM) policy paper at the September 1998 Session, two FLM loans (Cape Verde and Mali) will be presented to the December 1998 Session for approval, with start-up in 1999. The overall objective of the FLM is to increase flexibility in IFAD project design and implementation. It will match project time frames with the pursuit of long-term development objectives in instances where it is judged that an extended implementation period is more suitable to the attainment of those objectives. Key elements of the FLM include a longer loan period (10-12 years as opposed to the typical loan of 5-6 years), with clear articulation of long-term development objectives; an iterative and phased design process over this extended time period to permit greater flexibility in resource allocation and planning in the attainment of the long-term objectives; a detailed design process for the initial cycle of project activities, with a set of clearly specified "trigger" conditions for proceeding to subsequent cycles; and an enhanced role for monitoring and evaluation (M&E) in ensuring that the project is on track in its pursuit of immediate and long-term objectives.

B. Resource-Mobilization Strategy

Action Plan to Ensure Meeting Future Financial Needs

28. A number of interlinked initiatives are under way to help the Fund sharpen its cutting edge in an arena to which increasing numbers of new actors are attracted. These initiatives should contribute towards maintaining and hopefully elevating the position of IFAD regarding the receipt of resources through development-assistance packages:

- the outcome of the Rapid External Assessment (REA), which confirmed the important role of IFAD in poverty alleviation;
- adoption of the REA recommendations to increase the impact of IFAD projects and extend the Fund's outreach;
- the re-engineering process, growing out of internal dynamics, to increase the Fund's competitiveness and cost-effectiveness in resource transfers to the local level and to the poor; and
- adoption of a series of policies for improved internal resource management.

29. In order to maintain the type of leadership and credibility that it has acquired in the realm of rural development and poverty eradication – and taking into account evolving global circumstances and its own experience – the Fund is now reviewing what the future level and strategic pattern of its annual lending should be. This review is guided by three basic principles:



- enhancing the catalytic role that IFAD resources can play;
- sharpening the impact of its projects by systematic introduction of lessons learned; and
- maintaining its cost-effectiveness in resource transfers.

These principles, along with the relevant set of policies to be considered later by the governing bodies of the Fund, will determine the level of the Fund's future financial needs. In other words, programme-and-objectives-driven targets for the future resource base will replace the usual ad hoc levels that were perceived as achievable under the previous replenishment process.

30. Taking the above into consideration, steps should be taken to start the examination and securing of the necessary financial resources in a timely manner. A plan of action will be formulated according to the agreed target level, based on the expectation that the new governance structure will save the Consultation from the frustrating hurdles experienced in the past. Consequently, a one-year negotiation period is proposed, starting in February 1999. This implies the formal establishment of the Consultation by the Governing Council during its Twenty-Second Session, on the basis of the recommendations of the Sixty-Fifth Session of the Executive Board. However the First Consultation, to be convened just after the Governing Council in February 1999, will decide on an appropriate timetable.

31. Prior to this the President will also hold consultations with representatives of each of the three Lists in order to be in a position to forward some ideas for the consideration of the Executive Board. Within IFAD, the President will be assisted by interdepartmental efforts involving all relevant organizational units.

Meeting a Regular Challenge in a New Spirit

- Similar to the previous replenishments, the Fourth Replenishment process was protracted, but its speed in reaching effectiveness and in payment of commitments was unprecedented.
- Programme-and-objectives-driven targets should replace ad hoc targets as a basis for determining the level of future financial needs.
- Incentives inherent in the new governance structure can shorten the time span for negotiations: one year, starting in February 1999, is a feasible period for the Consultations.
- A well-prepared and carefully managed consultation process should ensure added value from each consecutive consultation meeting to prevent the "one step forward - two steps backward" syndrome.
- IFAD should maintain its leadership and field-level credibility: more countries are requesting the Fund's experience and the benefit of its catalytic resources, and IFAD projects are increasingly demonstrating their impact and effectiveness.



Mobilization of Complementary Resources

32. Options are being explored to develop further the resources to underpin IFAD's regular activities. These include the development of relationships with the private sector and the analysis of innovations in IFAD's liability structure. Private-sector collaboration will be pursued on the basis of a policy framework in support of current operations, with three main entry points:

- through IFAD projects;
- through IFAD-managed thematic facilities (e.g., in collaboration with the Global Mechanism and the Popular Coalition); and
- on a corporate-wide basis.

33. In the short term, the highest returns will be gained through a project approach to the rallying of those resources that underpin IFAD's own thrust in given countries. As experience is gained, thematic facilities will receive increased focus, and corporate link-ups can be envisaged at a later stage.

- Private-sector/IFAD linkages must be concluded on the basis of a mutually beneficial partnership. Consequently, IFAD's added value to the private sector will directly determine the sector's willingness to be associated with the Fund.
- Private-sector contributions can take a number of forms and some examples are given by category: financial resources; training (transfer-of-technology, maintenance); in-kind (equipment, machinery); management support (project offices, project monitoring); knowledge management (information systems, telecommunications); upstream partnerships (provision of material inputs); downstream partnerships (processing/sales/marketing); and advocacy.

Partnership Development in Support of Poverty Eradication

34. In support of IFAD's mandate, the Fund will continue to support the strengthening of existing and the development of new partnerships with diverse constituencies, including non-governmental organizations, civil-society groups, parliamentarians, private-sector groups and the media. Partnerships are seen as a means of enhancing IFAD's effectiveness in operations, optimizing resource use and leveraging, through advocacy efforts, greater support for IFAD's corporate objectives and for the maintenance of government commitment to official development assistance.

35. The Fund's resource development effort will be linked to and guided by a corporate communications and marketing strategy. This strategy will encompass media relations, partnership development and donor relations, ensuring that IFAD's core messages are communicated consistently and clearly to each major client category. It is also of paramount importance to ensure that IFAD has access to advanced technology and the means of propagating its message and image. A specific media strategy for the promotion of programme activities regarding future resource requirements will be developed in line with IFAD's corporate objectives.

C. Human Resource Strategy

36. IFAD's approach to human resources and personnel management brought about far-reaching changes in 1997 that have continued in 1998. The programme for 1999 will focus on consolidating the initiatives taken in the past two years and on providing staff with a sense of stability and normality, and the tools to operate in the new environment.



37. In addition to normal operational activities, the following are the primary objectives for 1999:
- monitor and fine-tune the human resource strategy initiatives implemented in 1997-1998, and help them take root in the organization;
 - provide a broader range of training and development opportunities for staff in support of the organization's goals; and
 - define requirements and request bids for a comprehensive human resources management information system.
38. The planned classification activities have been completed during 1998, but a position review process may need to be undertaken in 1999 because of redeployment. The classification activities in 1998 identified five professional and 82 general service positions to be upgraded. This is further discussed in section V, paragraph 61.
39. The workload assessment, due to be completed by the end of September 1998, could result in further redeployment of staff. It is also possible that the need for new support positions might be identified in order to cover substantial continuing functions that are being performed by long-term temporary support staff. An extension period of two months in 1999 will be required for the HRMS team to wrap up its tasks. This work will include the performance-management system, team-building and workload analysis.

Training

40. During 1998, the Fund invested in staff training in the following areas: management-development workshops; performance management; language, writing and editing skills; educational assistance grants; programme-related training such as project supervision, participatory project design, portfolio management and various training courses for general service staff on relevant substantive and economic issues. In addition, staff have received some training identified through Individual Performance System submissions. As a result of the training activities and rigorous identification analyses conducted during 1998, a training programme is being developed for 1999 that addresses areas in which there is a need to improve performance. The training activities identified for 1999 focus on supporting change in the management culture and developing staff skills. It should be noted that development activities to support change in the management culture require long-term training. Each year, modules will be introduced that build upon previous experience. For this reason, some training activities will continue to form part of the training programme over the next three to five years.

Long-Term Temporaries Policy

41. Twenty-nine temporary support employees have been identified as "long-term temporaries", i.e., temporary staff who have been employed by IFAD almost continuously for more than three years with minimum breaks in service. They have already been given contracts until 31 December 1998 with enrolment in the United Nations Joint Staff Pension Fund. If there is a need for their services to continue into 1999, they will complete twelve months of continuous service and, in line with the United Nations Common System practice, will become entitled to fixed-term conditions.

D. Support to IFAD's Overall Strategy

Dissemination of Evaluation Knowledge in 1999

42. During 1999, the dissemination of evaluation findings and lessons learned will be strengthened and enhanced through the strategic elements described below:



43. **In-house dissemination.** Until recently in-house dissemination took place mainly through informal and formal exchanges between evaluation officers, country portfolio managers, project designers and supervisors, as well as through the distribution of evaluation documents in hard copies. The introduction and use of the computerized Evaluation Knowledge System (EKSYST) since 1997 has greatly facilitated dissemination and noticeably increased the feedback of lessons learned into country strategy formulation and project design. IFAD intends to:

- (a) continue the production of lessons learned in the EKSYST format and make them immediately available for in-house use;
- (b) introduce incentives associated with the use of EKSYST to further stimulate the internalization of evaluation lessons; and
- (c) introduce mandatory requirements to encourage the use of EKSYST in project design (e.g., systematic reference in design documents to searches carried out in EKSYST, and clear demonstration of the link between evaluation lessons and design features).

Feedback from these processes will help direct the future development of EKSYST.

44. **Dissemination to development partners.** The dissemination of evaluation knowledge to IFAD's development partners will be done through a number of channels, several of which have already been tested:

- (a) *Annual Report* to the Executive Board, including the summary of lessons from evaluation and studies and the synthesis of project completion, ex-post and country portfolio evaluations;
- (b) review of evaluation reports by the Evaluation Committee of the Executive Board;
- (c) in borrowing countries, organization of round tables (e.g., in connection with country portfolio evaluations) and knowledge exchanges (such as the Tunisia workshop in 1998) with national agencies and other development partners;
- (d) in donor countries, organization of meetings linked to evaluation reports (e.g., the Belgian Cooperation in Brussels and the Swiss Cooperation in Bern in 1998);
- (e) continued exchange on evaluation methodologies with the multilateral system, within the framework of the United Nations Inter-Agency Working Group on Evaluation and the United Nations Administrative Committee on Coordination Network on Rural Development and Food Security;
- (f) continued sharing of evaluation findings with our development partners through the IFAD-initiated Learning from Each Others' Successes (LEOS) programme;
- (g) full operationalization of the IFAD Internet site devoted to evaluation (IFADEVAL), allowing exchanges of lessons learned in the framework of formal and informal forums and discussion groups; and
- (h) special publications based on evaluations aimed at the development community at large (e.g., the forthcoming publication on the evaluation of a livestock project in Morocco) or to a more general audience (e.g., the *Partners in Success* brochure).



45. **Wider dissemination through emphasis on thematic evaluation for the generation of cross-country lessons.** While maintaining a high level of project/programme/country evaluations, dissemination during 1999 will greatly benefit from more emphasis on thematic cross-country evaluations. The purpose is to distil knowledge from evaluation for wider applicability and use (e.g., evaluations of IFAD's approach for small islands, for dryland areas in the Near East and North Africa, and for water users' associations in small-scale irrigation schemes).

New Approach to Internal Audit Operations

46. **Strengthened capacity and enhanced organization of audit work.** During 1999 resources are expected to be assigned to the Office of Internal Audit to significantly strengthen the internal oversight capacity for IFAD operations.

47. **Audit efforts will be applied primarily to high-risk activities.** The selection of audit assignments will be based on a comprehensive risk assessment exercise (incorporating staff and senior management feedback) covering all aspects of IFAD operations and will include maintenance of separate detailed data for loans and grants.

48. **Support for improving accountability for IFAD projects.** The Office of Internal Audit will provide support to the Programme Management Department and the Controller's Office to strengthen the effectiveness of the audit mechanism for projects. Assistance will be provided in developing detailed guidance and standards on matters relating to audit as well as in initiating and undertaking project audits where appropriate. The use of grant and project resources under the direct responsibility of IFAD will remain a priority audit area in 1999.

IV. 1999 PROGRAMME OF WORK PREVIEW

A. The Projected Level

49. The planned overall 1999 Programme of Work is projected at the same real level as the 1998 approved allocation, USD 459 million. This level will be adjusted for inflation (provisionally estimated at 2%), which will be determined and updated in the final submission of the Programme of Work and Budget of IFAD for 1999 to be approved by the Sixty-Fifth Session of the Executive Board in December 1998. The table below provides a comparison of the 1999 projected Programme of Work against the 1998 approved level in real terms.

50. The Programme of Work is normally expressed in Special Drawing Rights (SDR), but planned in United States dollars (USD). The table indicates both the USD and SDR figures, using the SDR/USD rate of 16 July 1998, which is 1.33386. This rate will require adjustment at the time of formal approval of the Programme of Work.

Table: 1999 Proposed Programme of Work

	1998 Allocation SDR million ^a	1998 Allocation USD million	Real Increase (Decrease) SDR million	Real Increase (Decrease) USD million	1999 Proposed SDR million ^b	1999 Proposed USD million
A. Loan programme	312.4	426.5	5.9	(1.9)	318.3	424.6
B. Technical assistance grant programme	23.8	32.5	2.0	1.9	25.8	34.4
TOTAL PROGRAMME OF WORK	336.2	459.0	7.9	0.0	344.1	459.0
Grant programme as a percentage of overall Programme of Work	7.1				7.5	

^a Using the rate of exchange of Executive Board approval, SDR 1 = USD 1.36521.

^b Using the latest rate of exchange of 16 July 1998, SDR 1 = USD 1.33386.

B. The Proposed 1999 Lending Programme

51. It is currently projected that the 1999 level of lending will be about USD 425 million, in real terms, for approximately 34 projects, as compared to 33 projects in 1998. Details of the regional lending strategies are provided in the annex.

52. The overall guidelines for the lending programme for 1999 support IFAD's corporate strategic directions as established in 1998. As such, with some modifications, they are in line with the guidelines presented in last year's Preview of the Programme of Work and Budget:

- (a) containing the overall cost of project administration and supervision at a constant real level;
- (b) striving to link the delivery of new projects to the closing of existing ones, as well as monitoring whether these may have an impact on project administration costs;
- (c) developing a lending programme that: (i) identifies successful projects suitable for scaling up and replication; and (ii) supports small, innovative pilot projects;
- (d) articulating initiatives that encourage decentralization efforts and strengthen the capacity of local communities, while at the same time encouraging beneficiary participation; and
- (e) responding to the evolving international economic environment, in particular focusing on linking smallholders to markets and assisting economies in transition in meeting the needs of smallholders on recently privatized farmholdings.

C. Issues Affecting the 1999 Grant Programme

53. In response to the Executive Board's request, IFAD has undertaken a review of its current policy and practice in providing grants and, within this context, is developing the future directions and strategy for the allocation of such resources. At its Sixty-Third Session, the Board considered a



report on IFAD Policy and Strategy for Grant Financing. Since the Executive Board expressed the wish to have time to examine the paper in greater detail and develop a more informed response to it, an informal seminar is planned for 11 September 1998 with Executive Board Directors. A final paper, taking into consideration the previous comments of the Executive Board and the discussions during this seminar, will be presented at the Sixty-Fifth Session in December 1998. Consequently, at this stage, specific recommendations regarding the evolving strategic direction of the grant programme and a broad-based allocation of grants, as made in previous years, would not be appropriate. However, the following could be regarded as the main principles forming the framework of the grant programme in 1999:

- The ceiling of the overall grant programme as a ratio of the Programme of Work will remain the same, at 7.5%. Taking into account a 1999 provisional overall Programme of Work of USD 468 million (including currently projected inflation of approximately 2%), the 1999 grant programme will amount to approximately USD 35 million, compared to USD 32.5 million in 1998, which however, represented a lower percentage of the total Programme of Work of that year.
- The present policy of according a major emphasis to agricultural research will continue, while remaining within the 3.5% ceiling of the overall Programme of Work. Technical Assistance Grant (TAG) programme initiatives will increasingly focus on addressing issues arising from and providing support to projects funded by IFAD loans. The same would apply to priority areas forming the basis for prospective programmes of assistance of the Fund. Project-related issues of regional and international importance will be supported through grants to member institutions of the Consultative Group for International Agricultural Research (CGIAR) and other regional institutions of high repute.
- It is envisaged that the use of the Project Development Fund (PDF) and the Special Operations Facility (SOF), at the same level as last year, as well as selective training activities directly linked to IFAD's projects, will contribute to achieving a high-impact lending programme. On the recommendations of the respective internal task forces presently investigating the various aspects of PDF and SOF, and upon approval of such recommendations by the Executive Board, there may be some changes to the level of resources allocated to these categories.
- The IFAD/NGO Extended Cooperation Programme (ECP) will continue to be an important component of the grant programme. No change in present policy and practice is foreseen until the conclusion of the current review of the programme. The recommendations of that review will be submitted to the Executive Board for its consideration.
- Grant resources may be allocated as part of a larger project to address particular problems relating to crisis situations and severe economic disruption. This will also be subject to the Executive Board's approval of the revised paper that will be submitted in September 1998 on IFAD's Framework for Bridging Post-Crisis Recovery and Long-Term Development.
- The fostering of participation, knowledge-gathering and sharing, and partnership building are all areas that will receive higher emphasis and more resources than in the past. Linkages between such activities and IFAD's present and prospective portfolio will be pursued. In addition, the Fund should ensure that its grant resources in these areas play a catalytic role in mobilizing additional financial resources and institutional capacity from other sources.



- The Fund should also respond positively to the global responsibilities recently entrusted to it. In this regard, the Global Mechanism of the CCD and the specific initiatives of the Popular Coalition will be considered so as to catalyse the mobilization of matching resources from other donors.
- The overall grant programme, including agricultural research, capacity-building and the ECP, should take into consideration IFAD's continued emphasis on drylands and alleviation of food insecurity in these areas. Increasing the Fund's support to the implementation of the CCD should be considered as a correct step within this framework.

V. MAJOR ISSUES AFFECTING THE 1999 BUDGET

A. The Projected Level

54. IFAD expects that there will be zero or minimal real growth in the level of the 1999 budget as compared to the 1998 revised level. (In 1998, as will be recalled, a supplement of USD 1 million was approved by Governors, through a vote by correspondence recommended by the Executive Board, on the International Labour Organization Administrative Tribunal (ILOAT) decision regarding general service salary scales. As indicated to the Executive Board, USD 600 000 of this sum related to prior years, and therefore the 1998 budget has only been revised upwards by USD 400 000.) Adjustments will be made for identified price/inflation increases and will be included in the final submission to the Sixty-Fifth Session of the Executive Board, which will make its recommendation on the approval of the budget by the Governing Council at its Twenty-Second Session. In view of the operating strategies outlined above, as well as certain issues covered within this section, specific adjustments within the overall category allocations will be necessary. The major issues that are currently foreseen to affect the budget are highlighted below.

B. Governing Bodies and Other Official Meetings

55. As indicated earlier under section III B, IFAD expects to begin future resource requirement negotiations during 1999, and for this purpose a series of consultation meetings are envisaged. A provision for the one-time costs relating to these meetings will be necessary. The level of this provision will depend upon the timing, length and frequency of the meetings. It is expected that the timetable will be agreed upon by the Twenty-Second Governing Council. In an effort to minimize costs, it is proposed that these meetings be held, whenever possible, in conjunction with Executive Board meetings.

56. In the past, no interpretation services were provided for Audit Committee meetings. However, recently, due to the new composition of its members, the committee has required both translation and interpretation into the French language. The interpretation services have been accommodated with the allocation for the Evaluation Committee when both committees meet on the same day. However, the Audit Committee meets in February/March each year to discuss the Audited Financial Statements of IFAD. Provision for interpretation for this separate meeting will require a small budgetary provision, as well as provision for translation for all Audit Committee meetings. An allocation may also be required for those costs related to certain specific informal consultations and seminars with Executive Board Directors. No budgetary provision for the Audit Committee and seminar costs will be made should the Executive Board consider that these requirements are not necessary.



C. Payments for Supervision and Related Costs

The World Bank as Cooperating Institution

57. IFAD's collaboration with the World Bank goes beyond simply using the Bank as a cooperating institution for the supervision of IFAD-initiated or cofinanced projects. The two institutions complement their activities at the country level. Whereas the World Bank has considerable comparative advantage in addressing macro policy and sectoral issues, IFAD has played a pivotal role in promoting participatory organizations at the grass-roots level in support of those policies. This cordial and mutually supportive collaboration may, however, be subjected to some strain due to an intended price increase by the World Bank for its supervision work as a cooperating institution for IFAD. The magnitude of the suggested increase in the unit price per project per year is more than twice the historical charges of the World Bank, and this will certainly have major budgetary implications for IFAD during the current and future financial years. As a result, and once the World Bank communicates its final official position on supervision charges, IFAD may have no choice but to explore alternative suppliers of such services for IFAD-initiated projects. The search would include consideration of transferring part of the ongoing portfolio to other IFAD cooperating institutions who are deemed to have sufficient capacity to cope with the additional workload. Serious consideration would also be given to the use of services of entities not used previously when such services of the desired quality are found at competitive prices.

Direct Supervision and Other Supervision

58. At its Twentieth Session in February 1997, the Governing Council adopted Resolution 102/XX on Loan Administration and Supervision of Project Implementation for IFAD-Funded Projects and a Plan of Action. Subsequently, a Task Force for the Implementation of a Time-Bound Action Plan for Recommendations 1 through 5 of the Report of the Joint Review on Supervision Issues for IFAD-Financed Projects was set up to examine the related issues, including the financial implications. To this end, a workshop was convened with IFAD's cooperating institutions on 13 February 1998 to provide a forum for reflecting on ways of strengthening the supervision process in response to the goals articulated in IFAD's major strategic thrusts (i.e., support projects/programmes that are driven by beneficiary participation in design and implementation and creation of an effective portfolio management system that ensures field-level results). The workshop's central theme was to define the IFAD/CI relationship. Its specific objective was to reach a common understanding on the following:

- minimum requirements for supervision within the context of IFAD's strategic thrusts;
- ways and means of improving collaboration and coordination so as to eliminate areas of unnecessary overlap;
- identification of changes that may be required in the present documents that govern the relationships between IFAD and CIs; and
- a preliminary schedule for bilateral negotiations with each CI.

59. It is expected that once the different recommendations made in these areas materialize, there will be a positive impact on IFAD's project portfolio performance. While all the measures proposed are expected to lead to improved cooperation with IFAD's CIs and to more efficient functioning of project monitoring systems, there seems, at this stage, to be very little room for reducing the unit cost of project supervision. The African Development Bank (AfDB) and the West African Development Bank (BOAD) have indicated the need to increase their annual average costs. The issue of the World Bank expected price increase has been dealt with above. Thus IFAD intends to pay particular attention to project portfolio review issues, with a view to identifying even more stringent means of addressing project implementation issues within the given cost structure. At the same time, efforts are



being made to contain the portfolio size (in terms of full project equivalents (FPE)) by rigorously examining proposals for loan extensions within the context of IFAD's Policy Framework for Defining Project Implementation Periods and Extensions of Loan Closing Dates (EB 97/61/R.10). Regional divisions are currently reviewing the status of different projects to determine in which cases extensions are most warranted. At this stage, it is estimated that resources will be required for approximately 216 FPEs. This represents an increase over the 1998 level, mainly due to the fact that it would be more prudent in the case of projects directly supervised by IFAD to provide adequate budgetary provision immediately after Executive Board approval for expeditious project start-up. This will ensure that work towards meeting conditions of effectiveness takes place in a timely manner. Part of this budgetary provision will also be required to cover the loan administration and procurement services to be rendered by UNOPS for the 15 pilot direct-supervision projects. A comprehensive fee for services has been proposed of USD 12 000 for each year that the project is under supervision.

Audit of Loans and Grants

60. It is proposed that audits of projects and grants will sometimes be initiated and undertaken by IFAD if covenants in loan or grant agreements are not adhered to. Such interventions, which constitute an integral element of IFAD's control over the proper use of its funds, may sometimes be paid directly by the Fund. In light of general problems in terms of timely delivery of audit reports on the part of borrowers and recipients, IFAD has found it appropriate to introduce the possibility, in the revised General Conditions, that it may call on a special auditor to conduct the auditing of a project. This possibility could also be used if there is a suspicion of misuse of funds. The expected cost of these activities in 1999 will be shown separately under the heading Audits of Loans and Grants Initiated by IFAD within the Cost of Appraisal, Supervision and Evaluation category. This allocation will be used mainly for audits of grants to be undertaken by the Office of Internal Audit, but will also be the funding source for audits of loans initiated by IFAD in accordance with the revised General Conditions (section 10.04). Such interventions will be coordinated by the Programme Management Department, the Office of the Controller and the Office of Internal Audit, in consultation with the cooperating institution.

D. Human Resources and Training

61. As mentioned under section III, the job classification review has been carried out by the Human Resource Management Team. Preliminary results show that five professional and 82 general service posts require upgrading. In the case of some general service posts, functions are being performed at a professional level while the positions are currently classified under the general service category. This situation has arisen over the years as organizational and operational activities have evolved, with the assignment of additional duties to the staff positions concerned. Upon completion of the exercise, these will be recommended for conversion to the professional category. The cost implications associated with the currently identified conversion from general service to professional posts are minimal.

62. Overall cost implications with respect to the data provided under the preceding paragraph will be included in the final presentation of the budget to the Sixty-Fifth Session of the Executive Board in December 1998. It is expected that these will be reduced by savings due to the downgrading of five professional posts.

Temporary Staff Policy

63. In order to avoid the recurrence of the "long-term temporaries" situation described in paragraph 41, revised procedures for short-term temporary staff are being promulgated. While there should be no financial impact on the budget allocation for temporary staff, the new procedure will



increase the workload in the Personnel Division, which will have to apply tighter controls on the issue of temporary contracts, as well as increasing its activities in locating and testing applicants for inclusion in an expanded staffing roster.

Impact of After-Service Medical Costs

64. It was brought to the attention of the Twenty-First Session of the Governing Council (GC 21/L.5) that the current multi-employer (FAO, WFP, IFAD, etc.) After-Service Medical Coverage (ASMC), which operates on a pay-as-you-go basis, is unsustainable over the long term due to demographic changes and escalating medical costs. An actuary engaged by FAO determined that there was an unfunded cumulative liability for active staff and retirees of USD 212.5 million, of which IFAD's share would be USD 10.8 million as of the end of 1996. These are preliminary figures and IFAD and other Rome-based UN agencies are following up with FAO to agree on their share of the unfunded liability. IFAD plans to present the outcome of its discussion with FAO and the recommended funding proposal to the December 1998 Audit Committee, as part of its review of the Adequacy of the General Reserve of IFAD. Meanwhile, it is proposed that the full provision should continue to be made for annual service costs in line with the decision made by the Executive Board. The incremental annual cost of ASMC, on the basis of estimated figures supplied by FAO, amounts to USD 428 000.

Compensation for Injury, Illness or Death of Staff Members

65. In accordance with the Personnel Policies Manual, IFAD provides insurance coverage of its staff for compensation of injury, illness or death. Several recent large claims have induced underwriters to review the profitability of the policy. Initial figures received indicate a possible 20% increase in premiums for 1999. Management is presently studying a report that outlines possible cost-saving alternatives. However, it is likely that some price increase will occur in this area in 1999.

E. Management Information Systems

Computer Services

66. The increasing reliance of the Fund's operations on the continuing availability of information-technology services requires the Fund to maintain and operate the relevant technical infrastructure in a secure and reliable manner. To maximize the cost-effectiveness of the infrastructure, it is essential to follow a strategy of implementing state-of-the-art software and hardware components. Obsolete technologies have high maintenance costs and risks; leading-edge technologies have high "discovery" costs and risks. The most recent *proven* technologies (i.e., state of the art) reduce these costs and risks.

67. In this respect, approximately 200 new workstations will be leased in the last quarter of 1998 to replace obsolete equipment that was purchased by IFAD in the period 1994-96 and is a source of continuous problems to the users and puts additional pressure on the user support unit. The incremental cost with respect to the 1998 budget for the lease of this equipment will be partially offset by savings on the technical assistance cost for obsolete equipment.

Security

68. The Fund faces continuing growth in the use of information technology by staff at all levels and has an increasing reliance on information systems to support its core operations. This situation calls for the appropriate funding of resources to ensure that all information assets are adequately protected and that critical information systems are available under all circumstances.



69. The Operational Risk Management (ORM) review, performed by Zergo in 1995, recommended the establishment of an information security function. More recently, the review of the workload and organization of Management Information Services, made by the director of the International Computing Centre (UNICC), has identified information-systems security as a major information-technology responsibility for which no resources are provided within IFAD, and has recommended establishing a dedicated function as soon as possible. To this effect, the duties and responsibilities of one existing position have been redefined, thus establishing the function of information-technology security officer.

70. The programme of work of this new function requires limited initial investment, in the first two years, for the acquisition of specialized security software, as well as expert assistance for the timely implementation of the most urgent measures.

Year 2000 Software Compliance

71. As indicated in last year's budget document, the current personnel/payroll system faces a "year 2000 compliance" problem due to the obsolescence of Millennium, the mainframe-based development and operating environment on which the system is based. To resolve the problem, it is necessary to implement the technical solution identified by the licensor of the software used to develop the system (as early as possible in 1999 for use as of January 2000). Adequate provision needs to be made to absorb the one-time costs of developing, testing and implementing the necessary changes. Action has also been initiated to assess the readiness of IFAD's major counterparts with respect to the year 2000 issue. The objective of this activity is to determine situations external to IFAD that might affect its operations after 1 January 2000 and to make contingent provisions, if needed.

72. Costs related to this one-time development, including testing and implementation of the necessary changes by a specialized consulting firm, are expected to be shown under Initial Costs Relating to Re-Engineering.

Migration to a 32-Bit Environment

73. As new systems are implemented and become operational, IFAD's user community gains progressively wider access to corporate information and the tools to manipulate this information. This requires selecting, with the participation and support of the users, proven office productivity, data management and data analysis tools that maximize integration with IFAD's corporate information systems. It is also necessary to pay continuous attention to user training, user support and system maintenance activities in terms of planning, coordination and resource allocation.

74. There is a strong demand from user divisions to upgrade IFAD's suite of office productivity tools to its current release. One of the prerequisites for the installation of the current release of Microsoft's Office 97/98 is that the PCs run 32-bit operating system software. Thus the installation of Microsoft's Windows NT and the upgrade of the Office suite have been planned as two stages of the overall migration project, which in turn depends on the availability of adequate hardware for all users.

75. While the lease of equipment is part of the ongoing cost of maintaining the technical infrastructure, the acquisition of new user licenses represents an investment in end-user productivity tools.

Technical Environment for the IFAD Website

76. The development of IFAD's corporate website is planned to proceed along the lines that emerged from the website workshop (December 1997) and the subsequent proposal by the World



Wide Web consultant (March 1998). In order to provide dynamic content to IFAD web pages, a number of database applications are expected to be gradually implemented in the course of 1998.

77. Moreover, to extend the implementation of dynamic web pages throughout IFAD's corporate site, it is necessary to expand the relevant infrastructure, acquiring and installing web authoring and deployment tools and website management tools. Similarly, a number of requests for more flexible access to corporate information will be addressed through a combination of web-based query tools.

Corporate Application Development and Support Team

78. Starting in the second half of 1998, a new process has been established for the development and enhancement of corporate systems. Central to the new systems development process is the concept of a core team with complementary skills, which works synergistically on multiple projects.

79. Efforts will continue in 1999 to build and strengthen the applications development team, and to invest in developing the necessary mastery of the new methodology and tools. In-house application development will progressively rely on an "open" design and architecture and, moving in this direction, the team is expected to work on the strengthening of existing corporate systems, primarily a second release of the Loans and Grants System (LGS) and the Contact Information Available On-Line (CIAO), the strengthening of IFAD's intranet, and the possible development of a new members' contribution system.

F. Other Administrative Expenses

Telecommunications

80. Most of the business processes involved in IFAD's world-wide operations rely on an efficient and effective telecommunications infrastructure. It is essential to design, develop and maintain an efficient electronic network that permits fast, reliable and cost-effective communication with staff and working counterparts in the field, and that can be used as a means of global information collection and exchange. Travelling staff should be able to connect to and exchange information with the Headquarters in a straightforward and efficient manner. This is particularly important considering that IFAD does not have field offices.

81. This infrastructure is based on an integrated set of voice, fax and telex communication services outsourced to international carriers. Access to the Internet is obtained through UNICC, which is IFAD's secure and cost-effective "hub" for full Internet access and world-wide connectivity. In spite of a substantial increase in the volume of all types of traffic, with the exclusion of telexes, IFAD has been able to keep overall telecommunication costs constant as result of close monitoring of market conditions, identification of different alternatives, and renegotiation with suppliers.

Impact of Move to Additional Offices in IFAD/2

82. The Italian authorities have allocated an additional 2 000 m² of space (made up of 84 offices and service space) in IFAD/2 to alleviate the space constraints in the provisional headquarters building. Almost one third of the staff is now accommodated in the newly acquired area. Management is in contact with the host government regarding the allocation of a building as a solution to the problem of the permanent headquarters, as stipulated by the agreement between the Italian Government and the Fund. The move and accommodation of staff involved extensive work and major cost implications, which are reflected in the 1998 Office and General Expenses budget. These expenses have been fully utilized, mainly for the set-up of the offices and such one-time expenditures as security and safety arrangements, transportation, portage and utilities services not covered by the host government.



83. For the 1999 expenditures, every effort has been made to keep expenses related to the move to the new offices to a minimum, whether charged against Office and General Expenses or the host government budget. However some increases are unavoidable due to such day-to-day operational activities as cleaning, technical works, maintenance and utilities services, and the additional insurance coverage. In order to maintain the same budget level in 1998, adjustments to the Office and General Expenses budget categories have been made, involving cost reduction in other areas.

Publications

84. There has been an increased demand for production of publications both by management and operational divisions. Since the re-engineering recommendations were put into effect in January 1996, the number of IFAD publications has increased by almost 100%. This was accomplished despite a reduced budget in 1997 and in 1998 by using funds allocated for the Twentieth Anniversary. It is also worth mentioning that, as of May 1998, the publications budget for 1998 was fully committed, leaving many proposals for publications uncovered. The increased volume and improved quality of the publications and the very favourable feedback from governing bodies, our partners in the field and other UN agencies, testify that resources are being deployed optimally. IFAD will strive to maintain this quality and meet the increased demand.

G. Initial Costs Relating to Re-Engineering

85. As mentioned above, one-time development costs in the management-information-systems area are foreseen in 1999. Furthermore, institution-wide development of other systems is currently being reviewed in-house, e.g., human resources management (HRMS), payroll and travel systems, to determine total outlay requirements, including the possibility of introducing "capital budgeting" for these systems.

Capital Budgeting

86. The current IFAD budgeting process is limited to the one-year span of the Programme of Work and spending authority for administrative expenditures. The practice of allocating administrative costs on an annual basis without regard to the objective of expenditure, that is, whether the spending is for an ongoing operation or an investment spanning a number of years, is not in line with modern management practice. IFAD management, in its ongoing efforts to streamline the operations of the Fund and create better planning tools, is considering the introduction of a long-term investment decision tool called "capital budgeting". This consists of the entire process of planning expenditures whose returns are expected to extend beyond one year. Capital budgeting deals with present investments whose benefits extend for a number of years. Administrative expenses are classes of expenditure incurred on a regular basis to maintain ongoing operations. Capital investments tend to involve large outlays and are irregular, while operating costs, individually, are relatively small and recurrent. For this reason, it is advisable that capital investments be identified separately from the administrative budget. If this is not done, the result is that either the budget reflects peaks and valleys depending on the timing of included capital outlays, or there will be a tendency to spread the capital outlays over a number of years. The consequence of the latter is that each major capital outlay will not be examined as a project/programme as a whole, with full analysis of costs and benefits.

87. Capital budgeting is a concept widely used in the planning processes of international financial institutions such as the World Bank and the Asian Development Bank, as well as by private and public institutions. Given the nature of IFAD's activities, capital budgeting is currently intended to be used in the areas of computing and information technology to improve the efficiency and effectiveness of the Fund's long-term operations, but it may be extended to other areas if deemed necessary.

H. 1999 Budget Format Changes and Other Issues

88. The Financial Regulations of IFAD were adopted by the Governing Council at its First Session in December 1977 and amended with effect from 21 February 1997. Due to evolution and changes in the organization's culture since that time, it is now proposed that some of the administrative budget regulations be slightly modified. Regulation VI, paragraph 3, of the Financial Regulations of IFAD reads as follows: "To meet the Fund's requirements the President may reallocate funds within categories of the administrative budget. In addition, the President may, with the approval of the Executive Board, reallocate funds between categories".

89. Over the years, the format and number of categories under IFAD's administrative budget have evolved, with the most recent change approved in the Programme of Work and Budget of IFAD for 1987 by both the Executive Board and the Tenth Governing Council. On this occasion the number of budget categories was reduced from nine to five, excluding Contingency. For 1999, IFAD would like to propose to the Executive Board a reduction of the existing five categories to four, which could be achieved by merging the following two categories:

- (a) Office and General Expenses; and
- (b) Other Operational Expenses, including Corporate Strategy and Resource Mobilization.

90. Furthermore, it is to be noted that currently, under normal practice, Contingency funds may only be used with the express approval of the Executive Board. Contingency items include those for: (a) Expenses for the New Headquarters Building (currently USD 150 000); and (b) Contingency for Unforeseen Expenses (and possible inflationary pressure in excess of that anticipated) (currently USD 250 000). These total USD 400 000, less than 1% of the total budget. Clearly, when the need arises for the President to request authorization to use Contingency funds, some timing difficulties are created as the Executive Board only meets three times each year. It is therefore proposed to recommend to the Executive Board that the President be authorized to reallocate from Contingency for purposes expressed under both (a) and (b) above. This would be in line with the current practice of other financial institutions, such as the Asian Development Bank, and would avoid the administrative expense burden incurred in the conducting of votes by correspondence for such purposes.

91. It is foreseen that the introduction of the Euro in 1999 will only impact the budget format in the calculation and recording of the Programme of Work and Budget exchange translations. Should any new circumstances arise, management will keep the Executive Board informed.

I. Recommendation

92. Depending upon the views expressed by the members of the Executive Board in relation to the proposed budget format changes under H. above, it may be necessary for the Executive Board to recommend to the Twenty-Second Session of the Governing Council a derogation from, or an amendment to, the Financial Regulations of IFAD, so as to authorize the President to allocate amounts under the Contingency items to other categories of expenditure as the need arises. It is understood that the President would always inform the Executive Board of any such action.

REGIONAL LENDING STRATEGIES

Western and Central Africa

Socio-Economic Trends

1. Historically, progress in western and central Africa with regard to per capita income growth, agricultural performance, and rural poverty alleviation has been poor. In the 1980s and early 1990s, stagnation and even deterioration of economic and social indicators was widespread. Yet more recently there has been a notable recovery in many countries, largely due to improvements in macroeconomic and sectoral incentive frameworks. Structural adjustment and market liberalization have opened up new opportunities. Increasingly, governments are moving towards more decentralized systems for decision-making related to resource mobilization and expenditure. The 1994 devaluation of the *Communauté financière africaine* (CFA) franc has served as a powerful stimulus to economic development and agricultural growth in many countries. However resulting benefits are not always evenly distributed, and the rural poor, especially, risk being left behind in the absence of well-targeted investments in rural development.

2. A number of countries in the region are still experiencing severe economic, social and political dislocation, preventing their return to a development path. These countries include The Congo, the Democratic Republic of The Congo, Liberia, Sierra Leone and most recently Guinea-Bissau. Special efforts on the part of the international donor community will be required once these countries are able to resume development activities. One of the most pressing concerns will be arrears settlement. While the HIPC DI addresses debt problems for countries already on an adjustment path, innovative solutions will be needed for countries emerging from crisis, and IFAD will be proactive in finding mechanisms to respond to the arrears problems of this category.

Opportunities for IFAD

3. In its investment orientation and pursuit of development activities in western and central Africa in 1999, the Fund will place the highest priority on initiatives in the following technical areas: (i) developing rural financial services that reach isolated populations without previous access to financial markets and that are well-integrated into national financial-sector frameworks; (ii) capacity-building in support of decentralized decision-making processes for participatory rural development; and (iii) natural resource management and the environment, with an emphasis on supporting antidesertification initiatives. To achieve these objectives, IFAD will continue to stress the importance of target group participation in defining project objectives and priority activities; maximizing use of local knowledge and experience; and pursuing a strategic orientation to investments through strengthened collaboration with governments, civil society and other donors. These measures will ensure that project interventions fit closely within the context of overall economic and sectoral development strategies for individual countries.

Operating Strategic Directions

4. In view of these trends and priorities, and in line with IFAD corporate strategy, major strategic operating directions for the region include the following:

- **Ensure effective IFAD presence at the field level through maintenance of lending levels and outreach.** The most important challenge facing the Fund will be to maintain portfolio development and lending levels high enough to compensate for the lending shortfall experienced in 1997. So far in 1998, the region is on track in meeting its



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objective of submitting a total of 6-7 projects to the Executive Board for approval. For 1999, the lending target will increase to 8-10 projects.

- With regard to the **arrears** situation, IFAD will continue to address this problem through its pursuit of bilateral arrangements such as those worked out in previous years for Cameroon, The Congo, Guinea-Bissau and Niger, and will also closely monitor compliance with existing agreements. As a result of such agreements, programmes have been reactivated in Cameroon and Niger this year. Discussions on a possible arrears settlement package have been initiated with the Democratic Republic of The Congo.
- To maximize funding leverage and foster strategic **partnerships**, the Fund continues to seek project cofinancing opportunities with other IFIs. To contribute to achieving institution-wide cofinancing targets, two new projects will be cofinanced with the World Bank in 1998 (Cameroon and Guinea), and an additional one or two are foreseen in 1999. In addition, IFAD will continue to seek strategic partnerships with the World Bank in selected countries where there is a jointly determined interest in working together (tentative countries include Burkina Faso, Guinea and Mali).
- **Support projects and programmes driven by beneficiary participation.** Conditional upon Executive Board approval of the Flexible Lending Mechanism (FLM) in September 1998, and three FLM loans at the December 1998 Executive Board (for Cape Verde, Guinea and Mali), a major challenge for the region in 1999 will be to begin operationalizing this approach. A major objective of the FLM is to build participatory planning into project design.
- **Establish and use knowledge networks on rural poverty.** In 1999, IFAD will expand work already initiated in earlier years in the context of the Convention to Combat Desertification (CCD), closely linking its activities with the Global Facility to be headquartered at IFAD. Support to the development and implementation of national action plans will continue in a number of Sahelian countries. A workshop for rural finance practitioners will be organized to discuss experience and lessons learned in the area of proximity approaches to rural financial-services delivery to the poor. This will follow up the successful practitioner workshops held in 1996 and 1997 and the IFAD/German Foundation for International Development/International Food Policy Research Institute conference to be held in Ghana later in 1998.
- The Fund will also continue active participation in the design and implementation of TAGs in support of agronomic research. Research areas will include commodities such as yams that are of importance to the rural poor; facilitation of information and knowledge exchange through the Internet and cross-country linkages among project participants; and support to key regional organizations such as the Permanent Interstate Committee for Drought Control in the Sahel and the Central Bank of West-African States.

Create effective portfolio management systems. IFAD will continue to employ the project and portfolio management system that it initiated in 1997. This system is used to track project progress in meeting development objectives, management of project implementation, financial status, and cooperating institution performance. After two years of implementation, it has proven its worth as an effective management tool.



- **Develop human resource and management systems.** Regional training activities will continue to emphasize project design and implementation issues. Proposed activities for 1999 include project administration (procurement, disbursement and recruitment procedures), negotiating skills, and technical training in areas such as participatory project design and implementation, rural finance and the environment.

Eastern and Southern Africa

Socio-Economic Trends

5. Political change continues to exert direct and indirect influence over large parts of eastern and southern Africa. In 1998, the region has benefited from a period of relative calm, with the exception of some border problems in the Horn of Africa. On the economic front, a period of structural adjustment has given way to continuing adjustment. Distorted pricing and foreign exchange regimes have been eliminated or substantially reduced, and for the first time in two decades, the small farmer has the potential opportunity to sell at a fair price, to save and to invest. But smallholders and the rural poor do not have the linkages with the market to be able to benefit from these opportunities, since government services have withered away and the local private sector is often reluctant to invest in rural areas. So the rural poor have few means of grasping the opportunities of income and development that have emerged as a result of economic liberalization.

Opportunities for IFAD

6. The challenge for IFAD in this region is to help make these opportunities accessible to the rural poor. Participatory community organization continues to be one of the building blocks for the exploiting of new opportunities, along with the mobilization of capital and technologies to make smallholders internationally competitive so that they themselves can raise their income level. Within this context, linkages to the market economy are crucial, while the capacity of governments and/or NGOs to provide these linkages are limited. Thus smallholder development in the region must involve the private sector, and the Fund will be working to identify mechanisms that can be wielded to create support and incentives for development based on association between smallholders and private-sector operators. Private investment is one of the principal forces in developing systems of production, and a failure to associate small-scale producers in Africa with these movements will consign them to an increasingly uncompetitive position. Thus, IFAD will continue to accompany food-crop support with assistance to smallholders in cash-crop development.

7. The Fund's strategic approach for its lending operations and TAG programme in eastern and southern Africa is determined by the natural resource endowment and the actual situation of national economies, as economic operators respond to liberalization measures. IFAD will continue to focus on enabling smallholders to participate in agricultural markets and on ensuring that they retain a fair share of the value of their production. Within the context of the market, the accent will be upon development within organizations managed by, and answerable to, smallholders so as to ensure equitable relations with formal-sector operators.

8. In physically and ecologically marginal areas, IFAD interventions will be designed to strengthen natural resource management and optimize local resource use for better food security and reduced vulnerability to drought. In these marginal areas, activities will be linked to policies being promoted under the CCD, including diversification of resource use to contain pressure on the natural resource base.

9. In more accessible and higher potential ecological zones, the focus will be on helping smallholders establish a better competitive position within the deregulated and rapidly



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commercializing agricultural subsectors of individual countries. Here the emphasis is upon raising agricultural productivity by intensification through improved access to water and manufactured inputs and the financing required to purchase these. The focus will be on institution-building to promote sustainable smallholder organizations for handling trade, credit and marketing, and linking these smallholder organizations to major, formal-sector institutions. In this process, linkages to the private sector are essential in order to raise the overall efficiency of production, processing, handling and trading operations while linking smallholders to the most lucrative markets, whether domestic or international.

10. In many countries, expansion of agricultural production is reviving prospects for increased regional integration in food-crop production and trading, while increasing the pressure for improvement of transport and market organization. One of the major challenges for the region remains the need to drastically reduce transport and handling charges for agricultural goods, which continue to be a significant constraint to the full participation of smallholders in growing markets.

11. Lending operations in the eastern and southern Africa region in 1999 will continue to reflect the priority areas that the Fund has already identified for raising smallholder income and improving household food security: (a) support for the production of higher-value crops and irrigation; (b) the promotion of smallholder organizations; and (c) an enabling framework for rural finance.

Operating Strategic Directions

12. IFAD operations in the above areas will be developed within the framework of the following strategies:

- **Economic empowerment of the poor.** Strengthening the effective control of the rural poor over their economic activities and relations, through targeted delivery of assets to the field level and through supporting the maintenance of resource flows through viable smallholder organizations capable of providing services and accessing resources (credit and inputs) on a commercially sustainable basis;
- **Support for the democratization process.** Encouraging effective public-sector decentralization to increase the responsiveness of public institutions to the needs of rural populations, and ensuring the participation of the poor in local public-sector planning processes;
- **Expanding cofinancing of IFAD projects.** Influencing the focus of international funding on key areas of smallholder concern through systematic attempts to attract donor cofinancing to IFAD-initiated projects that are oriented to the expansion of pilot activities, with a proven record of sustainable increases in smallholder income and food security; and
- **Promoting strategic partnerships.** Increasing collaboration with donors and government in policy dialogue on major smallholder constraints, and joint field operations to resolve major problems in the implementation of a policy of smallholder economic and social empowerment.



Asia and the Pacific

Socio-Economic Trends

13. Since mid-1997 several countries of eastern and south-eastern Asia have been hit by a severe financial crisis. The crisis has had significant negative impacts on the welfare of the rural poor through loss of employment in urban areas, sharp increases in the price of agricultural inputs, food and other essential commodities. As a result, the incidence of rural poverty has increased dramatically in these countries and declining living standards have led to social unrest. This has threatened to wipe out the impressive gains made by these countries in rural poverty alleviation in the last two decades. Although the countries in southern Asia with the greatest concentration of poverty have so far been little affected by the financial crisis, they, too, have experienced a slowdown in their economic growth.

14. In the Asia and the Pacific Region, smallholder farmers and the landless constitute the bulk of the rural poor. In many areas of the region, prolonged drought in 1997 due to El Niño added to the hardship for poor households because of the drastic decrease in food production. Indigenous people/ethnic minorities constitute an important segment of the rural poor in several countries of Asia. The incidence of poverty among these groups is very high and they suffer from low literacy rates, poor health conditions and environmental vulnerability. Women in general, and woman-headed households in particular, are highly disadvantaged in terms of access to resources and income.

Opportunities for IFAD

15. In 1999, IFAD will respond to the needs of the rural poor who are affected by: the severe financial crisis affecting countries in eastern and south-eastern Asia, the adverse effects of El Niño on agricultural production in many countries of the region, and the continued marginalization of vulnerable groups such as ethnic minorities and tribal populations. These economic changes have highlighted the need to intensify the strategy of empowering local communities, particularly the rural poor, to enable them to cope with external shocks. In its policy dialogue during project identification, the Fund will strive to evolve an approach that allows local communities greater control and management of the resources that have traditionally belonged to them. In 1999, the lending programme will focus on the following:

- The financial crisis and the adverse effect of El Niño on agricultural production have shown that IFAD's regional focus on rainfed agriculture and a participatory approach has been very timely. More attention will be paid in 1999 to rainfed agriculture by focusing on programmes in watershed management and special crops grown by the rural poor in marginal areas.
- In 1999, the Fund will concentrate on helping food and income-deficient households in marginal areas gain control over their local resources, enabling them to gain more leverage in linking their communities to markets when such opportunities arise. Projects that support the transfer of resources, small-scale rural enterprises, skills development and credit projects will be identified and promoted. More attention will be paid to implementing projects for ethnic minorities and tribal populations, with a focus on creating income-generating opportunities and rural infrastructure.



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- In view of the likely reduction of investment in health and education in several countries following the Asian financial crisis, IFAD will play a more proactive role as an advocate and resource mobilizer for health and education initiatives at the grass-roots level. Also, more attention will be paid to participatory approaches to strengthen the rural poor's capacity to withstand the adverse effects of sudden economic crises.
- The Fund will strive to see that its grass-roots experience is used to promote changes at the provincial or national level to the benefit of the rural poor. In all regional efforts, the enhancement of women's access to productive resources and technology and their greater control over their own income will be stressed.

Operating Strategic Directions

16. In line with IFAD's corporate strategy, the regional programme will concentrate on the following operating strategic directions in 1999:

- **Beneficiary participation will be promoted in the design and implementation of projects** by promoting in-country resource groups, recruiting retainer-contract facilitators, holding pre-formulation workshops with stakeholders including activist NGOs, policy makers and academics, and promoting participatory project monitoring and evaluation.
- **New mechanisms will be promoted to ensure effective portfolio management** through cost-sharing of supervision with donors and other organizations where feasible. A series of workshops with beneficiaries, interested organizations, government officials and donor representatives will be held to help build support and create a base for the mobilization of resources. Grants will be used to build local capacity and for strategic action-research during implementation.
- **Knowledge networks will be established** and IFAD-funded projects will be linked with their counterparts in other countries for the sharing of ideas and experience. This regional network will also allow for more effective communication among IFAD, CIs and projects, and the continuous flow of information from projects will facilitate close monitoring of implementation.
- **Strategic alliances with key opinion makers, organizations and other donors will be developed by extending IFAD's outreach in Asia and the Pacific** to scale up and replicate successful projects. The Fund will also actively pursue potential donors and attempt to set up national trust funds along the lines of the Belgian Survival Fund, targeting the landless poor and food-insecure households.

Latin America and the Caribbean

Socio-Economic Trends

17. Poverty is a widespread socio-economic condition extending across most rural areas of the Latin American and Caribbean countries, irrespective of their level of per capita income. Contrary to expectation, the recent increase in the region's average growth rate has reduced neither aggregate poverty levels nor the absolute number of the poor in rural areas. Rural poverty is also becoming increasingly heterogeneous. While the small-scale family producer is still the main category, the most disadvantaged groups of the rural population are now found among landless peasants, indigenous ethnic communities, artisanal fishermen and, cutting across all categories, woman-headed households. Moreover, the close relationship observed between rural poverty and ethnicity suggests the need to apply a broader set of instrumentalities that takes into account the special cultural requirements of rural minority groups.



18. To date, the main problem in rural areas in the Latin America and the Caribbean (LAC) Region is not food production, as it was during the green revolution, but diversification of agricultural production at reasonable prices, without destroying the environment, and together with access to a secure source of income-generation. Only a small fraction of rural poverty is found among viable small farmers, and thus a large share of the rural poor cannot be helped exclusively by land-based production-oriented development projects. An additional complexity stems from the fact that low educational levels and technical abilities severely constrain the entry of rural youth into the competitive urban labour markets.

Opportunities for IFAD

19. Recent economic and institutional changes brought about by structural adjustment and globalization processes have generated a number of opportunities for IFAD's collaboration in the LAC Region. As major socio-economic changes are taking place simultaneously (economic liberalization, privatization, decentralization, regional integration, etc.), governments have lagged behind in dealing with the social consequences of economic reforms. Premature exposure of peasant farmers to ever more competitive regional markets has increased the poverty of those who lack sufficient productive assets (i.e., land) or the required skill and education. This is true for the whole region, irrespective of each country's average per capita income. The meagre results achieved by antipoverty programmes and the persistence of rural poverty across the region have prompted governments to search for new modalities of dealing with rural poverty. In this context, the renewed interest of the region's governments in collaboration with IFAD is essentially related to the opportunities to test new and innovative approaches to rural poverty alleviation that can be linked to their ongoing processes of institutional change and to recent developments in the agricultural and rural sectors. The crucial challenge is to relink rural poverty-alleviation initiatives to endogenous rural development processes. Without this link, both socio-economic inequities and poverty are likely to increase in rural areas, irrespective of the country per capita income. In the lending and TAG programme to be proposed for 1999, IFAD has given high priority to the following strategic areas:

- Improving the institutional sustainability of projects by: (i) ensuring beneficiary participation in project design and implementation; (ii) increasing work with grass-roots organizations, NGOs and private-sector institutions; (iii) linking projects with government-led antipoverty programmes; and (iv) joining rural poverty alleviation initiatives with incipient decentralization efforts that strengthen the capacity of local communities to make decisions and manage large amounts of resources in an autonomous way.
- Supporting indigenous people of the Amazon Basin, Andean region and Mesoamerica region. IFAD's interest in indigenous people in Latin America relates to the need to alleviate their poverty conditions and to support the efforts of indigenous populations towards their own development, including management of their own resources and preservation of the natural environment.
- Initiating a pilot project in support of artisanal fishermen and aquaculture development in order to obtain knowledge and experience that can be replicated in other fishing communities or rural poverty areas of the region.



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- Promoting policy dialogue among LAC countries on the way in which IFAD can collaborate in establishing effective and timely institutional mechanisms to facilitate the access of peasant groups to the benefits of subregional free-trade agreements, such as MERCOSUR, NAFTA, the Andean Country Treaty, CARICOM and the Central American Common Market.
- Strengthening organizational capacity to deliver financial services to the rural poor throughout the region. Based on successful experiences in microcredit systems in Central America, IFAD will expand its collaboration in South America to strengthen the organizational capacity of selected, highly promising microfinance service providers.
- Continuing in-depth gender analysis and training to ensure better-focused implementation of the gender dimension in all phases of the project cycle and technical assistance programmes. Training in gender issues for project staff, service providers and beneficiaries constitutes an important area of activity that will receive priority attention through appropriate financial arrangements.

Operating Strategic Directions

20. Taking into consideration IFAD's corporate strategy, the following operating strategic directions will be highlighted in the region in 1999:

- **Increasing the commitment to rural development through better implementation and performance of the IFAD portfolio.** The rationale behind this objective is the need to improve analytical work at the division level and to make better use of available country-specific knowledge to articulate appropriate rural strategies.
- **Strengthening the quality of non-lending services.** These services will include the dissemination of existing knowledge on best practices, connecting rural people to external knowledge networks, and developing selected pilot operations on a grant basis aimed at enriching the available knowledge of successful approaches to poverty reduction.
- **Encouraging experimental and innovative projects and programmes.** Innovative projects will be put forward within a programme of non-lending activities supporting the regional lending programme.
- **Fostering partnerships by building alliances** at the country level. Partnership must be based on a common vision of rural development and reflect the interests and capabilities of all partners.

Near East and North Africa

Socio-Economic Trends

21. Socio-economic trends as they affect rural poverty in the countries traditionally covered by the Near East and North Africa (NENA) Region are characterized overall by slightly declining rates of economic growth per capita. The average for the region, in which most countries have stagnant or low growth rates, is dragged down by markedly declining rates in Algeria and Jordan. Although civil strife and disorder have restricted IFAD operations in parts of Algeria, Somalia, The Sudan and Turkey, conditions are expected to improve somewhat in 1999.

22. In the eastern European and former Soviet Union countries that are IFAD members, available data show that rates of GNP per capita continue to decline. Poor rural families continue to suffer because of state withdrawal from investment in production and provision of basic social services. While rates of privatization and the ability of rural people to enter the market vary, the newly



independent states of the former Soviet Union appear to be emerging from the economic transition more slowly and with greater difficulty than the centrally planned economies in eastern Europe, with independent administrations that existed prior to the transition process.

1999 Lending Strategy

23. In the NENA countries, the 1999 strategy will be to continue to seek opportunities to overcome natural resource constraints. IFAD will continue to work primarily on soil and water problems in rainfed areas. The approach will focus on community-level management of common-property resources. To help reduce pressure on degraded soil and water resources, investments will also be pursued in microenterprise and off-farm employment. For these kinds of activities, for agriculture and livestock, and for environmental protection activities, project investments will include support to rural financial services. Loans in these areas are expected to be made to Algeria, Jordan and The Sudan.

24. In eastern Europe and the former Soviet Union, in 1999 the Fund will seek opportunities primarily in the area of rural financial services. Projects will be designed to facilitate production by poor farmers and the entry of rural entrepreneurs into the market economy. IFAD projects will be designed to raise the total level of capital available for on-lending in rural areas through savings mobilization and improved delivery of financial services. Loans to Georgia and the Republic of Moldova, both former Soviet states, are expected to be made in 1999.

Operating Strategic Directions

25. In line with IFAD's corporate strategy, the regional programme will concentrate on the following operating strategic directions in 1999:

- **Beneficiary participation.** In 1999 IFAD will specifically focus on improving client participation in implementation, rather than design. Among the means used to do so will be eight IFAD/NGO ECP grants. Cooperating institutions and IFAD supervision missions will be requested to devote increased attention to the realization of project design arrangements for ongoing project participation. New technical assistance grants (TAGs) will be developed in two areas to enhance participation: one in training on gender issues for IFAD project staff; and the other in support of the development of common-interest grass-roots organizations in the NENA region, where they are relatively less widespread than elsewhere.
- **Portfolio management.** New activities in 1999 to improve portfolio performance will include a workshop for eastern European and former Soviet Union countries to promote cross-fertilization and the transfer among projects of skills relevant to project implementation. The Fund will begin to promote the use of the Project Management Information System (PROMIS), software. PROMIS was developed for use by in-country project managers as a tool for improving overall project performance through improved management of activities, rates of disbursement and effective project impact. Furthermore, a regional project implementation workshop will be held in Syria in 1999.
- In the normal complement of basic portfolio management activities by portfolio managers, the focus will be on the tail-end of projects. This will continue to include a review of the need for loan closings, extension of closing dates and loan cancellations. The issues of delays in implementation and disbursements that lead to poorly performing loans will continue to be raised with cooperating institutions and borrowers.



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- **Presence at the field level.** With respect to the objective of this thrust – to maintain lending levels – the Fund plans to limit its 1999 lending programme in line with the recommendation to the Executive Board in September 1997 (EB 97/61/R.6). This programme is somewhat lower than the percentage of funds absorbed by NENA countries in past years, when it was able to temporarily increase its share of lending resources over the Governing Council-approved regional share of 13.4% due to lower capacity in other regions. As a back-up scenario, IFAD will again prepare additional projects to absorb additional funds from other regions in the event that funds become available due to unforeseen circumstances. In general, however, the Fund can confirm that it is not currently able to meet actual demand in the region. Moreover, NENA's current share has become insufficient to maintain the current field-level portfolio, as closing projects will begin to exceed new projects in number and value in coming years.
- The Fund will seek to **expand its outreach** in the region in 1999 by mobilizing cofinancing for IFAD-initiated projects. At the same time, it will seek to build a limited pipeline of projects for 2000-2001 in which it will cofinance projects initiated by cooperating institutions, the World Bank in particular.
- **Build a knowledge organization.** In order to achieve improved recognition as a knowledge organization, in 1999 IFAD will develop an initiative begun in 1998 for the creation of a Consultative Group for Poverty Alleviation in Arab Countries, to be sponsored by itself and AFESD. It is expected that the Islamic Development Bank and the World Bank will also be core members. The purpose of the Consultative Group will be to raise awareness on issues of rural poverty and ways of designing investments to reduce this poverty in the Arab world. It should also serve as a mechanism for coordinating the allocation of resources from external donors in the region.