

a

IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Third Session

Rome, 1-2 December 2004

**REPORT OF THE AUDIT COMMITTEE ON THE PROGRAMME OF WORK AND
BUDGET OF IFAD AND ITS OFFICE OF EVALUATION FOR 2005**

I. INTRODUCTION

1. At its Eighty-Fifth Meeting, the Audit Committee proposed a new procedure for IFAD's budget process. This included a technical review of the detailed Programme of Work and Budget (POW/B) document by the Audit Committee prior to its submittal to the Executive Board in December for approval to present it to the Governing Council. This pilot procedure was approved by the Eighty-First Session of the Executive Board for two budget cycles starting this year.

2. As defined in its revised terms of reference, the Audit Committee's technical review does not bring any changes to the policy decisions made by the Board in September 2004 and does not make any recommendation regarding approval of the POW/B document. The committee's mandate is limited to preparing a report for the Executive Board after reviewing the POW/B document in November.

3. The Audit Committee reviewed the Programme of Work and Budget of IFAD and its Office of Evaluation for 2005 (document EB 2004/83/R.3) at its Eighty-Seventh Meeting on 3 November 2004. However, the committee wishes to underline that its contribution can only be modest, given the

novelty of the exercise and the limited time available. By way of comparison, at the Inter-American Development Bank, which has a resident Board of Executive Directors with support staff, a draft budget is presented in the month of July for a detailed review by the organization's Audit Committee for a full week's worth of work in the month of October.¹

4. Key issues were identified in areas impacting the zero-real-growth budget policy, one-time costs, carry-forward, Seventh Replenishment consultation costs, staffing levels and investment charges. This report includes the background information prepared by the secretariat at the committee's request, the questions raised on these issues by the committee with the Board members' support, and the responses provided by the secretariat.

5. The committee commends the extraordinary effort and work done by the secretariat, which resulted in the 2005 POW/B document being distributed a full six weeks earlier than last year and thus permitted a close technical review by the committee members and the secretariat prior to the December session of the Executive Board. The committee also expresses its gratitude to the secretariat for presenting IFAD's 2005 Programme of Work and Budget, for promptly providing written responses to the questions sent by the committee's chair on behalf of the committee before the review meeting, and for key assistance provided after the review meeting in the actual preparation of the report.

6. The committee expresses its special thanks to the chair and members of the Evaluation Committee for informally sharing the contents of that committee's report to the December Executive Board session, and to the Office of Evaluation for the presentation of its Work Programme and Budget for 2005.

7. Lessons learned from this first experience and the major points of discussion are summarized in the conclusion of this report.

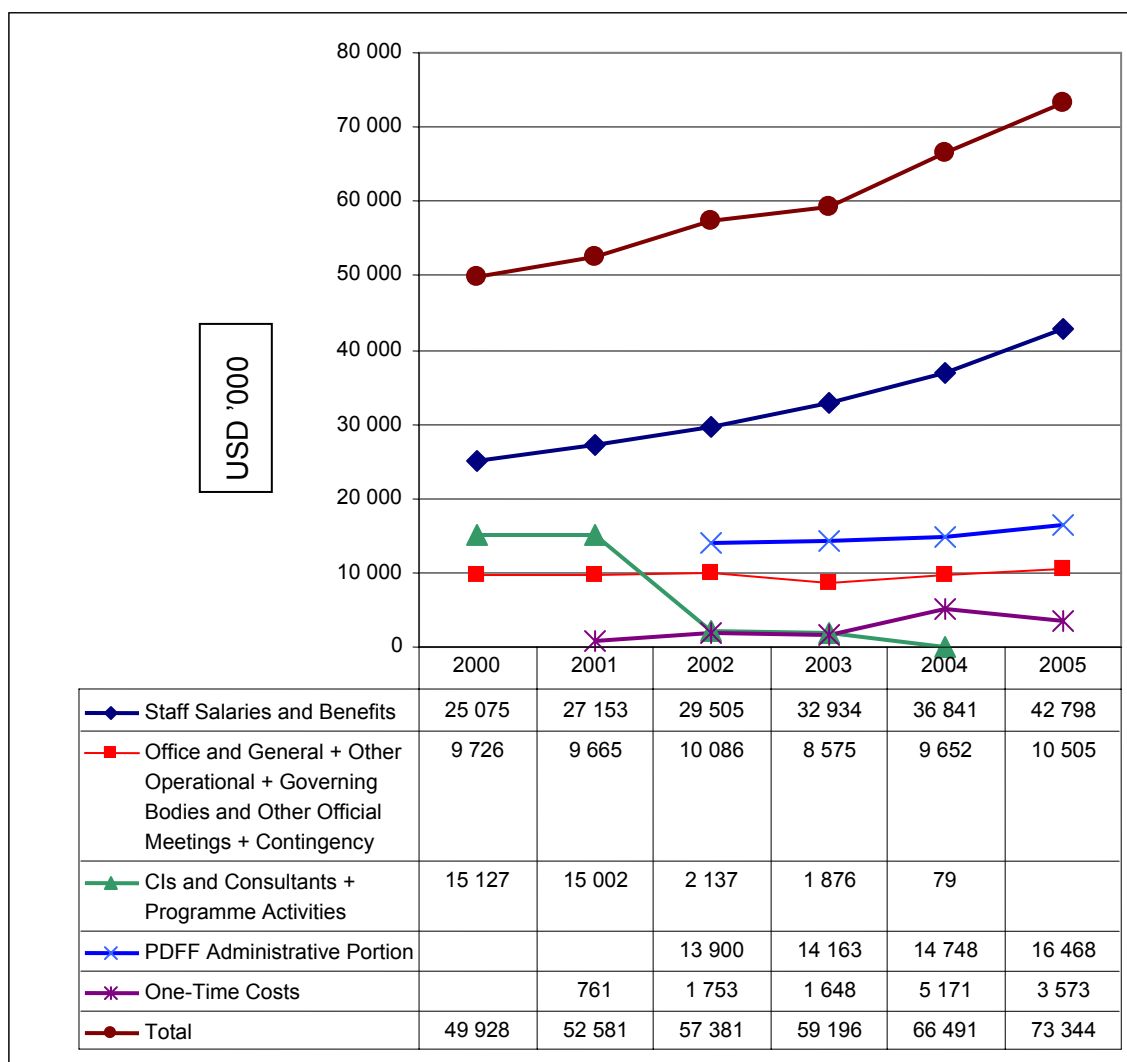
II. AUDIT COMMITTEE'S REVIEW OF THE PROGRAMME OF WORK AND BUDGET OF IFAD AND ITS OFFICE OF EVALUATION FOR 2005

General Evolution

8. With the introduction of activity-based budgeting, 2004 is a transition year with respect to the presentation of the budget within the POW/B document. For comparison purposes, Annex I and Annex II of this report show the 2004 budget according to the traditional categories. However, the 2004 budget can also be seen in Tables 7 and 8 of the POW/B document in the new format. The 2005 budget is presented by activity as well as by type of expense but does not give the previous budget categories, which were a mixture of activities and types of expense.

¹ The IADB 2004 Administrative Budget amounts to USD 405 905 926 and Capital Improvements Programme Budget amounts to USD 8 654 800.

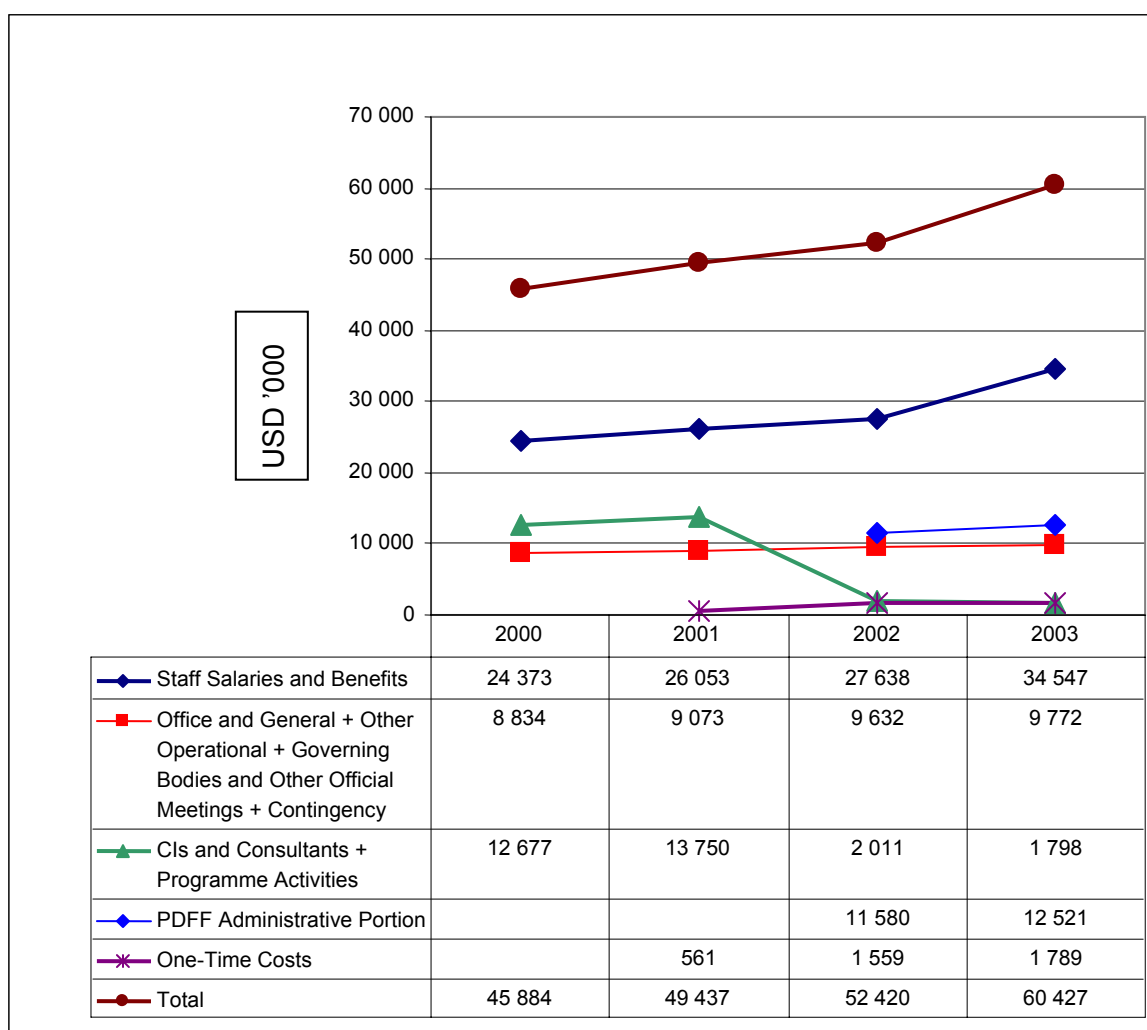
Table 1: Budget Trend from 2000 to 2005
(USD '000)



CIs: Cooperating Institutions

PDFF: Programme Development Financing Facility

Table 2: Actual Expenditures from 2000 to 2003
(USD '000)



Audit Committee's Comment/Question:

9. From 2000 to 2005, the global **budgeted** expenditures (from staff salaries to the Programme Development Financing Facility [PDFF] administrative portion and one-time costs but excluding the Strategic Change Programme) have increased by 47% (Table 1). **Actual** expenditures have grown by 32% from 2000 to 2003 (Table 2). Staff salaries and benefits have gone up by 71% in budgeted terms from 2000 to 2005 and 42% from 2000 to 2003 in actual terms. How can one interpret these figures?

Secretariat's Response:

10. First, it should be noted that the percentage increase in USD terms **includes the effect of EUR/USD exchange rate movements**, which has been unfavourable in recent years. For example, approximately 10% of the total increase of 71% in staff costs is due to the effect of exchange rates. Also with respect to the 71% increase, as explained in the response provided to the Independent External Evaluation (and provided in Section III "Analysis of Growth of Staff and Consultants between 1994 and 2005 by the Human Resources Office"), IFAD's Executive Board approved the conversion of 23 long-term temporary staff to fixed-term posts.

11. Second, another fact that should be taken into account with respect to Annexes I and II hereto is that the budget is presented to the Board at the projected EUR/USD exchange rate for the following

year; however, in order to make a valid comparison with actual expenditure, the budget has to be restated at the average annual exchange rate. This applies to 2000, 2001 and 2002. Owing to the change-over to the new system, the detailed budget figures for 2003 are currently not available at the average annual exchange rate and therefore a valid comparison between budgeted and actual expenditure for 2003 cannot be made. The budgets for 2004 and 2005 are presented in Table 1 at the approved and proposed rates respectively.

Audit Committee's Comment:

12. A detailed comparison would be welcome for the 2006 POW/B, excluding grant expenditures and specifying the impact of exchange rate movements.

Zero Real Growth and One-Time Costs

Audit Committee's Comment/Question:

13. Table 2 of the POW/B document shows a nominal percentage increase in the Administrative Budget of 5.8%, which exceeds the rate of inflation of 2.3%. What does 'zero real growth' mean in the context of IFAD with respect to staff levels? To what factors is the 5.3% increase in staff costs attributed? And the increase of 15% in short-term staff?

Secretariat's Response:

14. As indicated in the Table 3, the 5.8% increase in 2005 is due mainly to two factors: the staff increase wherein the Fund is a taker of the United Nations (UN) salary (5.3%), and the extraordinary price increase relating to facility services and management (4.5%). The unit cost for staff is driven by the United Nations Common System rules over which IFAD has no control. IFAD must abide by any increases that result from directives of the UN International Civil Service Commission (ICSC).

Table 3: Cost Increases
(USD '000)

Category	2004	2005	Increase in USD terms	Increase as a Percentage
Staff costs	40 673	42 798	2 125	5.3
Other	9 568	9 779	211	2.2
Extraordinary price increase*	132	726	594	4.5
Total budget	50 373	53 303	2 930	5.8

* The extraordinary price increase in 2005 relates to facility services and management.

15. Staff salary levels are determined on the basis of the guidelines established by the ICSC. As and when parameters change through the ICSC, IFAD consults with the Food and Agriculture Organization of the United Nations (FAO) in determining the proper application of adjustments for a UN agency with headquarters in Rome.

16. In addition, benefits have increased over the years, in accordance with UN rules. Please see paragraph 79 of the 2005 POW/B document on price/inflation adjustments and salary increases for full details of all benefits.

17. "Professional Staff Salary" is a gross figure from which specific deductions are made by administrative services for a number of obligations. "Pensionable Remuneration for Professional Staff" is a higher nominal figure than the "Staff Salary" figure, which establishes the base for determining the amount of deduction applied for the staff's contribution to the United Nations Joint Staff Pension Fund (UNJSPF), as well as the share provided by IFAD. In other words, the staff and

IFAD pay into the pension scheme an amount that is higher than the actual staff salary would otherwise yield as an obligation. This policy is a benefit to staff, and a form of savings for the institution. Normally, the base salary and pensionable remuneration are equal; in the UN system, however, net base salary is a lower amount than the pensionable remuneration. Consequently, the employee accrues pension on a higher amount, while the institution pays a lower net base salary. The current rate of contribution to the UNJSPF is 23.7% of the participant's pensionable remuneration, with two thirds being paid by IFAD (15.8%) and one third by the staff member (7.9%).

Audit Committee's Comment/Question:

18. It is surprising that salaries are not more linked to exchange rate movements.

Secretariat's Response:

19. There are other factors that affect salary and benefit levels, in particular, those imposed by the ICSC.

Audit Committee's Comment/Question:

20. Creation of the new director post for the Strategic Planning and Budget Division (FS) provoked questions upon its possible compensation and presentation (a net increase in the number of posts or redeployment?).

Secretariat's Response:

21. The Director, FS, is funded under one-time costs in 2004 and is proposed to be funded under the Supplementary Funds administrative budget in 2005. IFAD is currently undergoing a human resources review to take stock of current positions vis-à-vis what is required. After this exercise, the Fund will have a clearer picture of human resource requirements in terms of positions, including that of the Director, FS.

Audit Committee's Comment/Question:

22. The committee was surprised at this method of funding a strategic post for the institution through non-recurrent labelling the first year, then through extrabudgetary means in the second.

Secretariat's Response:

23. The Fund did not want to propose to the Board one single extra post before completing the in-depth human resources review. This review is still taking place and should be completed next year. In the meantime, alternate sources of funding were used for the Director, FS, position.

Audit Committee's Comment/Question:

24. The committee was not totally satisfied with this explanation. First, true 'zero **real** growth' should mean that the budget, deflated by price increase, should be constant. If a given expenditure was expected to grow more quickly, that growth should be compensated by a reduction in other expenditure. Second, the increase of staff number from 1994 to 2004 (see the human resources analysis below) means that not only the unitary costs have increased, but also the volume of manpower.

Secretariat's Response:

25. With respect to zero real growth within the Administrative Budget, as shown in Table 3 above, non-staff related costs have increased at the rate of inflation (2.2%) for 2005 and therefore reflect zero

real growth. The 5.3% is, in effect, the rate of inflation imposed by the ICSC and the explanation below illustrates how the Fund applies this percentage:

- the Fund monitors regular staff by the number of posts; and
- short-term staff is regulated by the needs of the institution subject to the availability of funds; it is not regulated by the number of staff or full-time equivalents.

Therefore, when comparing the number of short-term staff between years, the number may increase with the same level of funds due to a change in the mix of staff.

26. The overall average percentage impact of the ICSC regulations is 5.3%, and this applies to all staff.

27. All of the percentage increases are listed in paragraph 79 of the POW/B document. A few examples are listed below, illustrating the broad range of percentages involved:

- salary increases 3%
- pensionable remuneration 3%
- medical plan contributions 12%
- representation allowances 4%
- dependency allowances 10%

28. These percentages are applied to different proportions of the staff costs and the resulting movement is 5.3%. Having established the required percentage increase, it is applied to the prior year's total staff cost budget (restated at the same exchange rate that is used for the 2005 budget) to establish the new required budget.

29. By applying the 5.3% increase to USD 40 673 000 (2004 staff costs budget), we obtain USD 42 798 000, which is the 2005 proposed staff costs.

30. Within the total staff costs, the Fund has a constant number of regular permanent posts, for which the application of the required UN increases for 2005 results in a figure of USD 37 646 000, as shown in Annex X to the POW/B document. The remainder of USD 5 152 000 (USD 42 798 000 minus USD 37 646 000) is used for short-term staff needs, overtime and training.

31. Regarding the increase in the volume of manpower, the number of short-term staff can increase or decrease (as mentioned above) according to changing needs and availability of funds within the Administrative Budget. The explanation was provided to the Independent External Evaluation and is shown also in Section III "Analysis of Growth of Staff and Consultants between 1994 and 2005 by the Human Resources Office" explaining overall movements of staff within the Fund

Table 4: Percentage Increase in Salaries, Exchange Rates and Inflation for the Period 2000-2004

	2000	2001	2002	2003	2004
Increase on salaries and post adjustments	2.5	2.5	2.5	2.5	2.5
Increase in post adjustment scale for Professional staff		2.0			
Cost of living increase for General Service staff	3.0	2.5	2.5	3.0	3.0
Provision on post adjustment for cost-of-living increase					2.0
Provision for a further post adjustment					2.0
Salary survey for General Service staff	3.0				
Average annual inflation rate*	2.1	2.3	2.3	2.1	2.2
Average annual USD/EUR movement		4.7	-5.3	-16.4	-8.6

* Source: European Central Bank (ECB).

Audit Committee's Comment/Question:

32. The secretariat was asked to provide the basis on which expenditures related to Audit Committee meetings and preparation of the formal response to the Independent External Evaluation (IEE) findings are included under one-time costs.

Secretariat's Response:

33. The additional Audit Committee meetings are included under one-time costs with the rationale that they are inherent to the initiative for improving internal control mechanisms of the organization. The preparation of a formal response to the IEE findings is the specific cost of production of a report.

Audit Committee's Comment/Question:

34. The secretariat was asked to redefine use of this category for truly exceptional facts. In particular, repeated expenditures should not be presented as one-time costs (Cf. examples above).

Secretariat's Response:

35. The Strategic Planning and Budget Division (FS) is committed to reviewing these definitions during the 2006 budget process.

Audit Committee's Comment/Question:

36. The committee held six meetings in 2003 and six in 2004. The schedule for 2005 is based upon the same number of meetings. Therefore, the committee wondered how the secretariat could create a provision without any indication of possible additional cost.

Secretariat's Response:

37. After the committee reviewed its terms of reference in 2002, additional meetings have been held from 2003 onwards. The cost of these additional meetings and related reports was estimated and included under one-time costs in the 2003 budget. Within the context of zero real growth, these additional costs have been consistently included under one-time costs in 2004 and 2005 as well.

Audit Committee's Comment/Question:

38. IFAD's response to the IEE should be a responsibility of IFAD management. Therefore, it is surprising that such an item is provisioned under one-time costs.

Secretariat's Response:

39. The secretariat agrees that responding to the IEE is the responsibility of management. However, within the context of zero real growth, the additional production and printing costs were included under one-time costs.

Audit Committee's Comment/Question:

40. The committee was not convinced that the level of funds requested under one-time costs was adequately justified.

Secretariat's Response:

41. As mentioned above, FS is committed to reviewing the definitions and the presentation of one-time costs during the 2006 budget process.

Audit Committee's Comment/Question:

42. What is the exchange rate impact on the budget?

Secretariat's Response:

43. In order to compare budgets between periods, it is necessary to restate the budget at the same exchange rate in order to eliminate the impact of exchange rate movements. A comparison between the 2004 and 2005 budgets can only be meaningful if the 2004 budget is restated at the exchange rate at which the 2005 budget is being formulated.

Table 5: Comparing 2004 and 2005 Budget at Same Exchange Rate

Exchange rate used	2004 Budget Approved by the Governing Council at 0.780 EUR/USD	2004 Budget Restated at 0.819 EUR/USD	2005 Proposed Budget at 0.819 EUR/USD
Total Administrative Budget	USD 52 181 000	USD 50 373 000	USD 53 303 000

Audit Committee's Comment/Question:

44. What is the percentage of the euro component of staff costs (USD 42.7 million)?

Secretariat's Response:

45. The percentage of euro-based expenditure within the total staff costs is 40%, comprising General Service staff salaries, the major portion of short-term temporary staff, overtime and training costs. Annex X to the POW/B document details the breakdown into Professional and General Service staff and related cost components. For the overall budget, the euro-based expenditure's portion is 45.5%.

Audit Committee's Comment/Question:

46. No costs are allocated for the Debt Initiative for Heavily Indebted Poor Countries (HIPC) on the assumption that IFAD is expecting to receive USD 28 million from the IFAD HIPC Trust Fund. Have donors committed sufficient funds to cover the cost of HIPC debt relief in 2005? What is the current estimate to cover the total cost of HIPC debt relief as of 2004?

Secretariat's Response:

47. It is expected that donor contributions in 2005, combined with existing assets in the IFAD HIPC Trust Fund, will be sufficient to cover repayment obligations for the year. The estimated HIPC debt relief obligations for 2004 are USD 27.5 million.

Carry-Forward

48. A significant balance of the approved allocation for one-time costs for 2004 was not utilized. In 2004, USD 560 000 was approved to support the following human resources initiatives under one-time costs:

- Finance and Administration Department (FAD) organizational review;
- job evaluation and possible promotions resulting from reclassifications;
- development of competency framework; and

- staff development and training.

49. The amount of USD 11 200 has been charged from this amount, leaving a balance of USD 548 800, which the secretariat is requesting to carry forward to 2005.

50. The amounts of USD 40 416 for the FAD organization review and USD 50 000 for job description reformatting were both charged to the Human Resources division budget instead of to one-time costs. This was done in order to preserve the one-time cost amount to complete work on the pilot study in 2005, which has been delayed due to ICSC's delay in hiring a project manager. Other work involves finalization of development assessments funded by the United Kingdom's Department for International Development contribution to pilot testing and the training of staff on identified needs.

51. Work on the pilot assessments is to be expected in the first quarter of 2005 inasmuch as the pilot assessments are currently moving ahead as planned. Training in new policies will be provided in 2005 following the issue of new policies and procedures. Competencies have been defined and developed internally with no additional costs incurred.

52. Given the nature of the expenditure and with a view to simplifying the procedure by not representing the unused portion of the already approved budget, the secretariat recommends carrying forward the one-time costs.

Audit Committee's Comment/Question:

53. In line with the carry-forward policy on exceptional expenditures, the committee asked the following additional questions regarding the carry-forward of funds:

54. If the budgeted amount for an approved expenditure does not get used owing to delays, why not re-present it at the next budget? The committee wondered if, in the event a permanent expenditure is not made in a given year (for example, due to delayed recruitment of a post), this expenditure should be carried forward.

Secretariat's Response:

55. The secretariat does not wish to insist on this automatic carry-forward of one-time costs and is willing to withdraw the proposal. As mentioned before, the definition of the concept of 'one-time costs' will be re-assessed before the preparation of the 2006 POW/B.

56. The 3% carry-forward rule for the Administrative Budget was established in 2003 and approved by the Governing Council in February 2004.

Programme Development Financing Facility

57. From 2000 to 2001, the format of the budget changed from a single budget to one split into the Administrative Budget and the Programme Development Funding Facility (PDFF). The following paragraphs contain specific information showing the budget trend, including the administrative portion of the PDFF used from 2000 to date.

58. In 2000 and 2001, the cost components currently under the PDFF were funded in part by the Administrative Budget and in part by grants. Starting in 2002, a portion of the Administrative Budget was transferred to cover the administrative costs of programme development under the PDFF. In the table below, it is possible to see the total administration cost of IFAD under the column "Admin. Budget plus Admin. Portion of PDFF". Those expenditures have increased by 28% from 2000 to 2005.

Table 6: Administrative Budget and Administrative Portion of PDFF from 2000 to 2005

Administrative Budget and Administrative Portion of PDFF from 2000 to 2005 (USD '000)							PDFF		
Year	Exchange Rate Used	Admin. Budget	Amounts Transferred to PDFF Starting in 2002	Admin. Budget plus Admin. Portion of PDFF	% Increase	% USD Movement Against EUR	PDFF	Grants portion of PDFF	Admin. Portion of PDFF
2000	1 805 ITL*/USD	54 257		54 257					
2001	2 084 ITL/USD	52 479		52 479	-3.3	15.5			
2002	2 160 ITL/USD 1.146 EUR/USD	40 473	13 900	54 373	3.6	3.6	25 932	12 032	13 900
2003	1.070 EUR/USD	43 549	14 163	57 712	6.1	-6.6	27 563	13 400	14 163
2004	0.898 EUR/USD	46 704	14 748	61 452	6.5	-16.1	28 448	13 700	14 748
2005	0.819 EUR/USD	53 303	16 468	69 771	13.5	-8.8	29 968	13 500	16 468

* ITL: Italian Lira

59. The committee asked if IFAD audited the use of the PDFF to ensure the highest fiduciary standards and if there are guidelines to govern the use of the PDFF. The secretariat responded that IFAD's Office of Internal Audit is currently performing a review of the project development process, which incorporates a review of the PDFF. The audit will cover the integrity and timeliness of relevant financial and management reporting and the adequacy of and compliance with applicable rules, regulations and formal procedures. PDFF guidelines exist and are currently being reviewed in the light of the new decentralization procedures.

60. The tables in Annex IV hereto show a breakdown of the PDFF and the Field Presence Pilot Programme by institutional priority of the activity-based budgeting (ABB) format and also by expense types.

61. As the POW/B document states (paragraph 44): "As experience is gained in ABB, PDFF resources will be allocated in an even more strategic manner to respond better to the many challenges deriving from IFAD's strategic framework." In other words, there is now a more accurate allocation system based on the feedback from the PeopleSoft budgeting module, which will allow the PDFF to align with the institutional priorities that derive from the strategic framework.

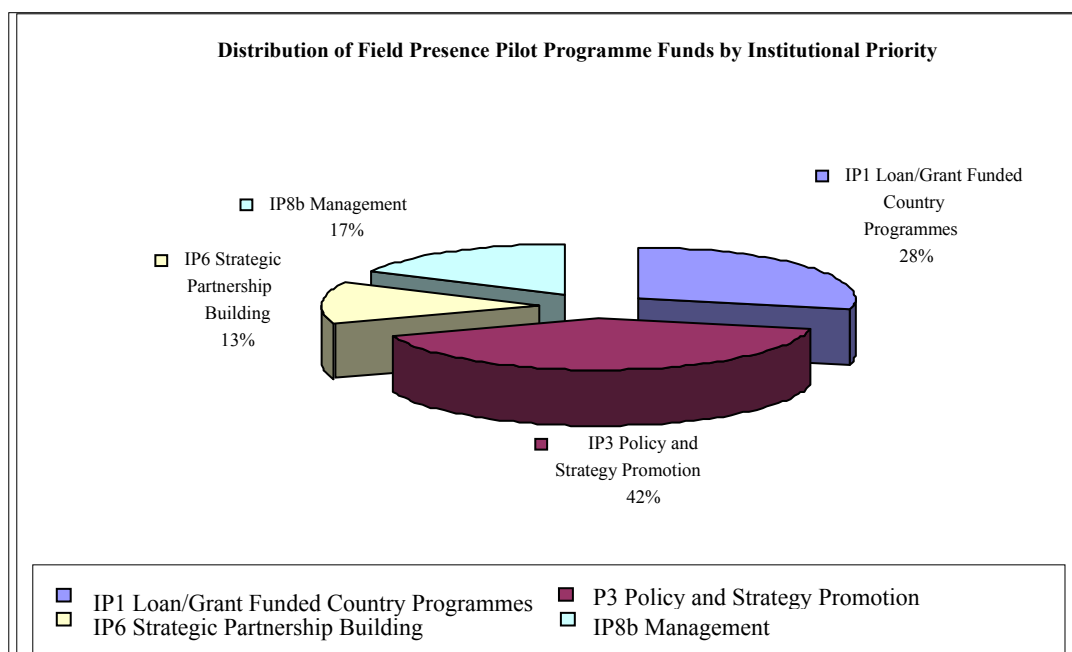
62. If the PDFF is proposed to be fixed at USD 29.9 million, the question arises concerning the means for IFAD to reinforce the areas mentioned in the five points under paragraph 45 of the POW/B document. The secretariat responded that the work under the PDFF will be integrated into other initiatives (such as the performance-based allocation system [PBAS]); for 2005, the amount stated is expected to cover the set objectives.

63. A question of principle was also asked as to why the PDFF is approved by the Executive Board while the POW/B requires Governing Council approval. The secretariat responded that the Programme of Work is approved annually by the Executive Board in accordance with Article 7, Section 2(b), of the *Agreement Establishing IFAD*. This has been the practice since IFAD was created. The Programme of Work is then transmitted to the Governing Council – for information only – at the time it approves the Administrative Budget each year, in accordance with Article 6, Section 10, of the *Agreement Establishing IFAD*. The Programme of Work is for the Governing Council's information as, clearly, it is relevant information related to the Administrative Budget. The PDFF was established by the Governing Council at its Twenty-Fourth Session in February 2001 pursuant to Resolution 124/XXIV on the Establishment of a Programme Development Financing Facility. The resolution establishes the PDFF and amends Article 7, Sections 2 (a) and (b), of the *Agreement*

Establishing IFAD. Paragraph (a) of the resolution specifies, inter alia, "The Secretariat shall hereinafter prepare annually a proposal for the PDFF and submit the same for approval to the Executive Board together with the Programme of Work of IFAD." Obviously the PDFF may also be submitted to the Governing Council with the Programme of Work and the Administrative Budget, but only for information.

64. Regarding the Field Presence Pilot Programme (FPPP), it was specified that Annex IV, paragraph 15, of the POW/B document indicates that the use of grants for field presence is funded by the Board at a maximum level of USD 3 million. The secretariat clarified that the funding for the FPPP comes from IFAD's regular resources but does not form part of the grant programme. Costs relating to regular field presence that are not part of the pilot programme fall under the PDFF.

65. The pie chart below shows the distribution of FPPP funds by institutional priority.



66. With regard to Table 2 of the POW/B document, the committee asked why there was no percentage reference to the FPPP and carry-forward funds. The secretariat responded that the FPPP is a three-year programme and different from the annual budget, while the 3% carry-forward from the 2003 budget had been done for the first time so there was no comparison in time.

Detailed Information

67. The committee requested details regarding some headings of corporate expenditure, and the secretariat provided a breakdown of some expense item lines from Table 8 in the POW/B document (see Annex VIII hereto).

Audit Committee's Comment/Question:

68. Detailed information was asked about mobile telephones and their relative usage, such as the total number of corporate mobile telephones, criteria for being entitled to one, rules and control mechanisms.

Secretariat's Response:

69. The annual cost for rental and maintenance of mobile telephones is absorbed by the corporate budget for telecommunications, while traffic costs are charged to each division holding mobile telephones. Rental costs are charged to the Management Information System's (FM) budget code H0602-Infrastructure maintenance and FM budget code H0603-Infrastructure maintenance. The service provider sends bimonthly bills containing an itemized traffic record that allows IFAD to track calls to each cost centre. Traffic costs are charged to divisional "Duty Travel" allocations under the Administrative Budget. The entitlement to a corporate mobile telephone must be approved by each division director.

70. Below are two tables showing a breakdown of corporate mobile telephone costs in 2003 and 2004 and how the phones are distributed in-house.

Table 7: Cost of Corporate Mobile Telephones

	USD (at 0.819 euro)	
	2003	2004
Traffic costs	176 968	191 867
Rental costs (at USD 113.55 each)	15 557	15 557
Total costs	192 525	207 424

N.B. The cost for mobile telephone usage increased by 7.7 % from 2004 to 2005.

71. The committee suggests that a separate line be included to show the total cost of telecommunications (fixed + mobile telephones) and would like to receive more information on the controls conducted to check efficiency and compliance with those rules. The secretariat has noted the request for next year's POW/B document.

Audit Committee's Comment/Question:

72. The committee was surprised at the increase in cost of 7.7% between 2003 and 2004 despite the strengthening of the euro and over a period where telecommunications tariffs were decreasing rapidly. The committee requested to know how IFAD manages its telecommunications costs.

Secretariat's Response:

73. The increase is justified by a constant request from the divisions for new mobile telephones, which we estimate to be about a 15% increase from 2003 to 2004. In addition, we have had an increase of 8% in minutes of conversation/traffic between 2003 and 2004. Regarding the exchange rate impact of the stronger euro, we actually need more USD to pay the bills, which are in euros. IFAD has indeed enjoyed a reduction in telecommunications rates but these are different from those applied by TIM for mobile traffic. There are two different market trends. In order to manage and reduce costs for mobile telephones, IFAD has just issued a tender for a new service provider. It is expected that competitive bidding will result in savings for the organization.

Table 8: Distribution of Corporate Mobile Telephones by Cost Centre

Unit	Number of Mobile Telephones	Unit	Number of Mobile Telephones
Office of the President (OP)	3	Human Resources (FH)	2
Office of the Vice-President (OV)	2	Office of the Controller (FC)	6
Office of the General Counsel (OL)	4	Strategic Planning and Budget Division (FS)	1
Office of Internal Audit (OA)	1	Office of the Treasurer (FT)	2
Resource Mobilization Division (ER)	4	Office of the Assistant President (PD) Programme Management Department	3
Economic Policy and Resource Strategy Department (ED)	4	Western and Central Africa Division (PA)	13
Office of the Secretary (ES)	5	Near East and North Africa (PN)	10
Information and Communication Division (EC)	6	Latin America and the Caribbean Division (PL)	2
Policy Division (EO)	3	Asia and the Pacific Division (PI)	12
Office of the Assistant President (FD) Finance and Administration Department	1	Eastern and Southern Africa Division (PF)	11
Administration Services Division (FA)	13	Technical Advisory Division (PT)	13
Management Information Systems Division (FM)	2	IFAD TOTAL	123
		Belgian Survival Fund (BSF)	1
		International Land Coalition (ILC)/ Global Mechanism (GM)	5
		Office of Evaluation (OE)	8
		GRAND TOTAL	137

74. The committee asked to know how IFAD manages its air travel costs. The secretariat responded that IFAD's travel policy provides that airfare for duty travel should be for the most direct route on non-endorsable tickets by air carriers recognized by the International Air Travel Association (IATA). The organization's official travel agent must comply with this policy when issuing tickets, and the Office of the Controller (in the Finance and Administration Department) monitors all travel authorizations. By using non-endorsable tickets, IFAD has achieved approximately 40% savings on air travel. In addition, IFAD is currently negotiating directly with the major airlines to obtain corporate discounts and thus achieve further savings in order to enable increased duty travel without necessarily increasing the travel budget.

Audit Committee's Comment/Question:

75. Are the tickets "open"? Are there any other restrictions? Are there managers who can exonerate themselves or their subordinates from those rules? Once the decentralized process is implemented, which independent manager will check that the rules are correctly applied? What are the rules for business- or first-class air travel? Provide a comparison with the Food and Agriculture Organization of the United Nations (FAO) and the World Bank.

Secretariat's Response:

76. Tickets are never "open", because open tickets are more expensive and because all travellers plan the dates of their travel. If a date changes while a traveller is on mission, the individual makes the arrangements in loco. If a date changes prior to departure, IFAD's official travel agent acts accordingly. If there are additional costs involved, they are covered by IFAD. The other main restriction is that non-endorsable tickets are limited to a single carrier; therefore, if the traveller has to change dates, the same carrier has to be used.

77. Interpretation of the travel policy lies with the Controller at present, who can authorize exceptions to the rules. With decentralization, individual budget holders will be authorizing the issuance of tickets according to the travel policy and availability of funds, and the travel agent will be responsible for providing fares in line with IFAD's travel policy. Any monitoring will be done ex post facto by the Office of the Controller, including monitoring of the official travel agent.

78. IFAD staff members are entitled to business class when the flying time exceeds two and a half hours. The President is entitled to first class on all flights. At FAO, the Director-General is entitled to first class on all flights; the Deputy Director-General and Assistant Director-Generals travel in the class immediately below first class (business class) on all flights; travellers at the D-2 level and below travel in business class when the duration of the flight exceeds nine hours.

79. The committee commended the secretariat for having engaged in negotiations with major airlines and would appreciate receiving information next year on the results.

Preparation of the Seventh Replenishment of IFAD's Resources (IFAD VII)

80. The committee requested to know the number of meetings held for IFAD VI consultations and the progress on preparation of IFAD VII consultations. The secretariat responded that IFAD VI negotiations were conducted in five sessions, held on 2 February, 2 April, 2 June, 2 October and 2 December 2002. The first session was short and organizational, and the second and fifth meetings were held in conjunction with an Executive Board session.

81. The IFAD VII Consultation Committee has yet to establish its working session calendar. If a Member State proposes to host a session, the cost would be borne by the host country; the decision to accept such a proposal would be taken by the members within the overall budget provision for IFAD VII negotiations proposed in the 2005 Programme of Work and Budget.

82. As for the difference in the cost of holding the meetings in hotels or in a conference centre, the IFAD VII consultation meetings are planned to take place in the same location as for IFAD VI, since – according to the secretariat – this option resulted in savings with respect to renting conference centres, although this is not obvious² (see Annex VII hereto).

Table 9: Costs for IFAD V, VI and VII Consultation Meetings

Replenishment Consultation	IFAD V (actual)	IFAD VI (actual)	IFAD VII (budgeted)
Cost	EUR 990 325	EUR 660 307	EUR 1 332 025

83. Comparison is easy since costs are mostly in euros and do not vary with exchange rate. The cost of replenishment exercises went from EUR 990 325 in 1999/2000 (IFAD V) to EUR 660 307 in 2002 (IFAD VI). The budget for IFAD VII is EUR 1 332 025, i.e. 43% higher than for IFAD V and two times that of IFAD VI. The cost per session (see Annex VII) increased by 10% for IFAD VI, and would almost double for IFAD VII compared with IFAD V.

84. The estimate for security services seems to be quite high, but the main source of inflation comes from the decision to recruit an interim director and a contingency for potential costs related to sessions outside Rome.

² Moreover, members commented on the need to hold the negotiations in a place that is friendly and easily accessible for delegations coming from outside Italy (which was not the case for IFAD VI on both accounts).

85. Annex VII hereto shows the detailed costs borne by IFAD with respect to consultation sessions. The cost of renting premises and some furniture is reimbursed by the Italian Government (see section on IFAD premises below) and is estimated at approximately EUR 50 000 per session.

IFAD Premises

86. The committee asked the secretariat to provide the following information regarding the new IFAD building:

- details and cost of work borne by the landlord;
- the cost borne by the Italian Government and IFAD; and
- charts and designs.

87. Currently, the Italian Government reimburses IFAD on an on-going basis for the cost of renting the necessary buildings and most furniture, minor renovation work and most security systems. For the renovation of the new premises, the Italian Government will cover some items; the negotiation of this is yet to be finalized.

88. Major renovation costs, in addition to ones covered by the landlord, are required for the personalization of the premises to match the needs of the Fund. Such personalization is deemed necessary in order to set up work environments that will provide optimal benefits to staff, such as library areas, cafeteria, child care, bank, travel agency, common areas and additional divisional meeting areas. In addition, there is the need to install special security systems and set up conference-area furnishings and equipment.

89. The project design and the lease contract are currently being finalized with the landlord, which also entails an agreement on the total costs to be borne by each party. Until such finalization, the overall estimated cost for the share not incumbent upon the landlord has been estimated at EUR 9 850 000 (USD 12 030 000, at the exchange rate of 0.819 EUR/USD). These estimated expenses are foreseen to be committed and disbursed over a three-year period (2005-2007). The final project costs will be available as of 30 November 2004 as per the project plan with the landlord, and this information will be presented in a document to be tabled at the December session of the Executive Board.

90. The yearly distribution of expenses between the landlord, on the one hand, and IFAD and the Italian Government, on the other (in line with the Headquarters Agreement), will be detailed upon finalization of the preliminary lease contract. The preliminary contract will include an itemized breakdown of all expenses involved. The allocation estimated for 2005 is EUR 2 million (shared by IFAD and the Italian Government) ensuring a carry-forward to the next calendar year if required.

91. The 2005 estimated provision is required in order to purchase necessary goods and services over and above the costs borne by the landlord. These will be committed and disbursed in line with the agreed workplan for the renovation project and with IFAD's financial policies and procedures (competitive bidding, disbursement upon certification of receipt of goods/services, accrual policies).

92. In addition, the provision covers the following human resources requirements:

- recruitment of the project manager (Chapter X contract at the P4 level) at an estimated cost of USD 152 000;
- replacement of a Chapter X position in the Information and Communications Division (EC) at an estimated cost of USD 148 000; and
- technical consulting services (architect and engineering support and other related services) at an estimated cost of USD 555 000.

93. The comparison between the current IFAD building space and the new building is shown in Annex VI hereto. The plan of the rooms and facilities in the new building will be finalized by 31 December 2004 with the delivery of the implementation plan.

94. The cost for additional security on IFAD premises should not be included under one-time costs if it is expected to be sustained in the future. In fact, the secretariat estimates that the increased cost of security measures (resulting from the UN response to recent world events) should drop once all IFAD premises are united on a single site. The committee commented that this indication should be included in the POW/B document so it can be tracked in coming years. The secretariat takes note of this comment for next year's POW/B document.

Direct Charges against Investment Income

95. First set of information from the secretariat in response to a request from the committee

96. Direct charges against investment income (DCII) are treated separately from the budget. It is only for information purposes that they are included in the POW/B document. These charges are monitored directly by the Investment Advisory Committee. Considering these charges separately from the net asset value (NAV) context would fail to reflect that any increase or decrease in the charges is directly proportional to the increase in the NAV of the investment and the number of transactions. Information on the investment portfolio, the related income, and the cost of externally managing investments is reported regularly to the Board.

The actual treasury fees incurred for 2000 to 2003 and the budgets for 2004 and 2005 are in the table below:

Table 10: Budget for Treasury Fees 2004-2005 and Treasury Fees Incurred 2000-2003
(USD '000s)

Year	2000	2001	2002	2003	2004	2005
Actual	11 278	10 485	7 864	5 590		
Budgeted					5 351	6 829

Initial comments by the Committee:

97. The committee was surprised that the secretariat envisaged in the POW/B an increase in treasury management costs of almost USD 1.5 million for next year, spending 28% more than in 2004 (USD 6 829 000 as compared with USD 5 351 000).

98. According to figures in the POW/B and the first reply received from the secretariat, treasury fees and commission fell dramatically between 2000 and 2003, dropping from USD 11.3 million to USD 5.6 million (a decrease of 51%). According to the 2004 budget, they should have continued to fall to USD 5.3 million for this year. Savings under the new investment policy associated with new contracts with financial service providers are on the order of USD 6 million for the period 2000-2004. The committee also observed with deep satisfaction that fees/commission had cost USD 11.4 million for a portfolio whose NAV was USD 2 068 million as of December 2000, resulting in a ratio of 0.55% (or 55 basis points). This ratio was less than half that in 2003 – when it stood at 0.23% (23 basis points) – and even slightly lower than that in 2004 – when it was 0.22% (22 basis points).

99. Therefore, the treasury forecasts in the POW/B document mean that, next year, one quarter of the savings realized thus far would be spent and direct charges against investment income would jump to 0.26%, a situation that was not welcomed by the committee.

100. The explanations given by the secretariat for this huge increase did not convince the committee for the following reasons:

- (i) The evolution of the portfolio is by nature uncertain. For example, envisaging an increase in the value of bonds – which comprise a substantial portion of the portfolio – is not consistent with predicting higher interest rates (a prediction that has already led the secretariat to reduce the maturity of its bond portfolio by many months).

Secretariat's Response:

101. Global government bonds. We base our forecast on the market outlook and the strategy implemented by the external portfolio manager for each asset class.

102. For United States and United Kingdom government bonds with rising interest rates, we agree that the value of the portfolio is expected to be lower. In fact, global government bond managers have maintained and intend to continue in 2005 a lower duration and underweight exposure in the United States and the United Kingdom against the benchmark weight. Such an approach contributed positively in protecting the portfolio against rising interest rates in those two countries. However, being overweighted in European government bonds and a slightly longer duration have a positive impact on the investment portfolio because interest rates should remain low due to the weakness of the European economy.

103. We also assumed in our forecast that inflation globally will pick up, affecting positively the returns and market value of global treasury inflation-protected securities (TIPS).

104. The diversified fixed-income exposure is expected to show positive results in 2005 as spreads are tightened and managers maintain shorter duration.

105. In summary, IFAD – for diversification purposes – holds different kinds of bonds (government, TIPS, and diversified) in several markets that react differently in relation to interest rate movements and economic conditions. This diversification has protected the portfolio against volatility and maintained stable returns.

- (ii) Regarding (possible, specific) costs related to TIPS, they should be – at least partially – compensated by savings in other instruments whose share has been reduced. In the event of a higher unitary cost for conservation, the committee – which had been told that the new contract was extremely competitive for all categories of titles – would have liked to have been informed of the specific clauses of the initial contract with Northern Trust compared with the previous one with State Street, as well as of the new one negotiated in June 2004. Moreover, since IFAD enjoys the benefit of the "most favoured nation clause", the committee – although commending the secretariat for this initiative – wondered why it was necessary to renegotiate the "most favourable" treatment. While the committee understood that those instruments could induce some cost, it did not see why there would be such a strong impact on 2005 forecasts. Indeed, since TIPS were bought between 2003 and last June, any overcost should already be largely included in the 2004 figures.

Secretariat's Response:

106. Global TIPS are managed actively against the benchmark. In 2004, we completed the investment policy allocation by being fully invested in TIPS from 8-18%. This explains the additional increase in costs for the TIPS exposure.

107. We confirm that the financial and commercial aspects of the custodian contract negotiated between IFAD and Northern Trust compared with the one with the former custodian are the most

competitive. It should be recalled and stressed that the selection of the custodian was undertaken through tight procurement procedures and through requests for proposals.

108. The “most favoured nation clause” is an additional comfort to IFAD. When fees were negotiated with the custodian and external portfolio manager, we were able to protect ourselves through that clause in that management fees would be the same as for other clients with similar mandates.

109. TIPS, being actively traded on global markets (Canada, France, United Kingdom and the United States), against our customized and conservative benchmark reflecting a six year duration, incur transaction costs just like any other discretionary managed portfolio. Based on our assumption that global inflation will increase, we expect that the custody and management fees for global TIPS (to the extent they are based on net asset value) will increase accordingly.

- (iii) The committee understood that shorter durations of fixed-income instruments could generate higher transaction costs, but asked if this could be compensated by higher stability of TIPS or by holding to maturity part of the portfolio announced in June 2003 as a result of the introduction of asset liability management.

Secretariat’s Response:

110. In 2003, it was decided that the duration of the global government bonds portfolio should be shortened to three years in order to protect against rising interest rates and volatility. The benchmark was accordingly amended to three years’ duration. In order to maintain this customized three-year duration, the benchmark is constantly recalculated by the index provider and made available each month-end by taking into consideration maturing bonds that are leaving the benchmark composition and including newly issued bonds. The benchmark reflects the universe where the managers invest. It should be easily calculated and transparent in its composition of holdings.

111. Against this background, our managers seek to replicate the benchmark composition by holdings, maturity, currency, country weights and duration, with the understanding that managers will endeavour to outperform the benchmark returns available each month-end. This kind of active investment process calls for a turnover of the investment portfolio reflecting the benchmark turnover due to the introduction of new holdings and the cancellation of old holdings during the month.

112. It should be noted that the turnover and its impact on transaction costs are compensated by stable income and lower volatility. We confirm that global TIPS contributed to reducing costs vis-à-vis the disinvested equities.

113. In the near future, it is expected that transaction costs will be reduced further, with the implementation of the recommendation of the asset liability management (ALM) review whereby a portion of the portfolio will be held to maturity and managed internally.

- (iv) The financial adviser fees, which are negotiated by open bidding, stood at USD 200 000 for 2004. It is proposed to increase them to USD 250 000, i.e. a 25% increase. Inasmuch as investment policy has not changed since the bidding procedure, the committee wondered why such an increase would be given to the financial adviser. Moreover, the committee took this opportunity to remind the secretariat of the committee’s wish to meet the financial advisor.

Secretariat’s Response:

114. The fees for the financial adviser are in line with the ones paid to the former adviser. During preparation of the 2004 budget, we estimated an amount of USD 200 000 for the financial adviser’s fee. However, the negotiations were not successful and did not reach that level; agreement was

reached for USD 250 000. The secretariat is exploring other arrangements to reduce this fee. Arrangements will be made for the financial adviser to meet with the Audit Committee in the future.

- (v) Lastly, the committee was surprised at the choice of managers who have a “significant portfolio turnover and use numerous trading instruments. The increase in transaction costs (would) result from the expected high volume and diversification of transactions to be effected by the portfolio managers, leading to higher settlement costs”. However, apart from its concern that such an attitude would contribute to higher costs, the committee did not wish to comment on matters related to the investment policy, such as choice of managers having a fee structure that links fees to performance and the use of complex instruments. The committee has decided to let the Board examine if this is consistent with the Board’s constant demand for a cautious and stable policy with restraint in the use of complex instruments.

Secretariat’s Response:

115. The managers are actively managing assets by seizing opportunities to “buy low and sell high”. Their investment approach is to select holdings, country, exposures, yield curve positioning, duration, sectors, etc., in order to manage properly the portfolio and be well diversified.

116. To manage actively but prudently against market movements, managers buy and sell through regulated exchanges. They also use futures to protect the portfolio against drastic market movements or to tap opportunities to enhance returns. The other actively used trading instrument is the currency forward, which permits full hedging against the required currency alignment based on our weighting in Special Drawing Rights (SDRs)

117. The secretariat reiterates that the Fund continues to act prudently in the management of its investment portfolio and is currently evaluating all the pending recommendations made by the ALM review.

Second set of information from the secretariat following initial comments:

118. The budget for direct charges against investment income consists mainly of external portfolio management (EPM) fees and custodian fees. The EPM fees are based on the asset value of IFAD’s external portfolio. A portion of the EPM fees are adjusted for the external portfolio’s performance against the assigned benchmark. The custodian fees are linked to the asset value of IFAD’s external portfolio, but also cover such costs as settlement function, safekeeping and transactions. In other words, these fees are not fixed but may vary in accordance with the changing asset value of the external portfolio, which reflects the financial market conditions.

119. The EPM and custodian services are negotiated through competitive bidding process and all contracts include the most favoured nation clause. This guarantees that IFAD will always receive the best available level of fees from the appointed external portfolio manager. Also, IFAD does its utmost to guarantee that EPM fees are kept as low as possible by renegotiating when opportune. A recent example of this was upon the completion of the funding of the inflation-indexed bond mandate in June 2004, which resulted in a renegotiation of EPM fees to a lower level.

120. The 2005 estimated budget for direct charges against investment income is based on the following assumptions:

- Investment portfolio asset allocation of: 10% equities, 44% fixed-income, 18% inflation-indexed bonds, 23% diversified fixed-income, and 5% cash.
- Target rate of return: 3.5%.
- Duration for global government bonds and inflation-indexed bonds are three and six years respectively (both having been reduced by three years).

- Diversified fixed-income having a minimum Moody's credit rating of Aa3 (raised from the previous Baa2).
- External portfolio's asset value is projected to increase in 2005 by 5%.
- Other factors relating to custodian fees: Additional portfolio (i.e. inflation-indexed bonds).

121. Against this background, the level of the 2005 budget for direct charges against investment income (DCII) will remain very close to those in the past years, when compared with the external portfolio's asset value as shown in the chart below.

122. In case the external portfolio's asset value decreases by 5% due to unfavourable market conditions, the resulting estimated amount of direct charges against investment income for 2005 would be further reduced and more closely in line with that of 2004.

Table 11: DCII Trend and Forecast for 2005

	USD '000						
	2000	2001	2002	2003	2004	2005 +5% scenario	2005 -5% scenario
DCII	14 022	13 620	10 170	5 210	5 401	6 829	5 664
Total Asset Value*	2 068 191	1 917 089	2 093 993	2 356 921	2 474 767	2 598 505	2 351 029
DCII as % of Total Asset Value	0.68%	0.71%	0.49%	0.22%	0.22%	0.26%	0.24%

*2004 and 2005 total asset values are projections based on September 2004 figures.

Source: Executive Board reports on the IFAD investment portfolio and DCII budget records.

Further comments from the committee:

123. Further comments were made by the committee as follows:

- According to new figures delivered to the committee subsequent to its queries and comments, the situation was even better in terms of savings for the institution. Direct charges against investment income dropped from USD 14 million in 2000 to USD 5.2 million in 2003 (decrease of 63%). The ratio of DCII to the portfolio's value fell from 0.68-0.22%, i.e. to one third its previous level. In terms of return, this represents an improvement of 44 basis points.
- However, the forecast for 2005 is still that DCII will increase from USD 5.7 million to USD 6.8 million (a DCII/NAV ratio of between 0.24% and 0.26%), which still looked high in the absence of any change in the investment policy.
- The new explanations do not seem to respond fully to the committee's remarks. However, the committee noted with some satisfaction that the figure of USD 6.8 million was hypothetical.
- Lastly, the committee would like information provided to the Board on Treasury staff costs for the last 10 years. (How many people worked for Treasury in 1994, 1999 and 2004 full-time and what was their cost?)

Secretariat's Response:

124. The number of Treasury staff for the last 10 years are:
 1994 – 3 (Professional) and 5 (General Service): 8 staff
 1999 – 5 (P) and 7 (GS): 12 staff
 2004 – 5 (P) and 7 (GS): 12 staff

Complementary Contributions

125. The Executive Board is being invited to approve a complementary contribution from the United Kingdom in the amount of USD 10 million. This is already listed (as is the contribution of Canada) in the status of contributions document. If the Board must approve such contributions, it is strange that approval is being sought (now and so late) when the contributions have already been given to IFAD. Isn't this approval coming late?

126. In reality, the Board is not invited to approve the receipt of complementary contributions, but rather to approve the use of these resources in relation to a programme framework. This programme framework will be presented to the December 2004 session of the Executive Board.

127. Furthermore, the definition of complementary and supplementary resources will be presented in an information paper to that same session.

128. In summary, complementary contributions are regular resources of the Fund. The Executive Board, through its approval of loans and grants, approves regular resources for use as development resources. When complementary contributions are received by IFAD as resources for institutional purposes or for a defined programme, the Board approves their use through the Annual Programme of Work and Budget.

129. The President of IFAD has the authority to receive supplementary funds. Supplementary funds are not part of IFAD's regular resources. The President informs the Board of the purpose of these resources and the projected inflows over the coming year. With the 2005 POW/B document, the Board is presented for the first time with an indicative breakdown of supplementary funds by broad purpose (development versus institutional). The actual application of these funds depends on whether they are received and the allocation and approval process for each fund.

130. IFAD receives a management fee for the administration of supplementary funds but not for the administration of complementary contributions. The POW/B document presents for the first time an indicative administrative budget to be derived from the management fees.

131. Lastly, Table 2 of the POW/B document shows the summary of the IFAD budget by funding source. However, it also includes funding sources for non-administrative costs, such as the direct charges against investment income and complementary contributions.

Staff Matters

Evolution:

132. The table in Annex III hereto "Summary of Human Resources" shows information regarding personnel from 1994 to 2005. This annex is based on the analysis prepared for the Independent External Evaluation (IEE) and includes extra budgetary staff (under the Belgian Survival Fund, associate professional officers [APOs], and supplementary funds) and non-IFAD staff (of the International Land Coalition and the Global Mechanism). The information on the staff of IFAD and its Office of Evaluation is in the first two columns; these numbers coincide with those in the POW/B document.

133. According to the table, IFAD's total staff rose from 313 in 1994 to 379 in 1999 to 451 in 2004, for an increase of 44% over the ten-year period. Regarding the Administrative Budget, the number of full-time equivalents (FTEs) increased during those years from 287 to 323 to 356 (+24%). "Extra budgetary" posts increased much faster, from 26 to 56 to 95 (+265%). From 1994 to 2003, the staff increase was funded through the Administrative Budget for 69 posts, as was also the case for extra budgetary sources (i.e. 50% for each of these two sources). At the outset, however, the number of

extra budgetary posts represented 8.3% of the total, rising to 21% at the end of the period. This is only a partial view, since those figures are not the ones used by the ITAD study (see further on).

Secretariat's Response:

134. A full analysis was prepared for the IEE response and can be found below (under the section entitled "Analysis of Growth of Staff and Consultants between 1994 and 2005 by the Human Resources Office". This analysis explains the overall movements of staff within the Fund and explains that not all staff on the payroll relate to IFAD administration. For instance, there are numerous staff that work for non-IFAD funds (e.g. the Global Mechanism), and there are also people employed specifically for projects.

Table 12: Number of Staff

	1994	2003
Administrative Budget	287	356
Extra budgetary	26	95
Total	313	451

135. In terms of most highly qualified staff (i.e. staff in levels P-4 to D-2), the staff number went up from 110 to 137, for an increase of 24%.

136. The committee requested to know if there had been savings in personnel or redeployment among services as a result of increased use of computers and the Internet since 2000. The secretariat responded that, as a result of the Process Re-Engineering Programme (a previous stage of the current Strategic Change Programme) and increased access to the Internet, outsourcing of translators became possible in 2001 and the number of translators employed directly was reduced from six to three (two P4s and one P5). The cost savings were transferred to operations in the form of redeployment of posts.

137. The committee wondered whether it would have perhaps been more appropriate to transfer partial posts, since outsourcing does not imply full savings on those posts. Moreover, members would like to know if there have been more savings in other areas.

138. In fact, the secretariat expects to capture efficiency gains from the implementation of the Strategic Change Programme in 2005 and more so in 2006. As the organization is still in a transition period for the time being, it anticipates that some functions will no longer be needed in the future. The committee commended this effort and expressed the wish that this point be detailed next year. The secretariat took note of this request.

139. In response to a request for details on new projects and their respective rationales and costs, the secretariat mentioned the IFAD Initiative for Mainstreaming Innovation (IMI). This initiative, funded by the United Kingdom, will be a major new project for IFAD in 2005. The operational framework for the main phase of the IFAD IMI will be presented to the December 2004 session of the Executive Board. This framework outlines the principal components of the IMI, its processes and procedures, and the related monitoring, evaluation and reporting. The Board will be invited to approve the use of USD 10 million to be received from the United Kingdom as a complementary contribution, in accordance with the operational framework presented in document EB 2004/83/R.2, of which up to USD 6 million may be utilized in 2005 and the remainder in subsequent years.

140. Since the document mentions on several occasions the need for sweeping human resource reform, the committee asked if the Board could receive regular updates on needs and progress. The secretariat recently provided a report on the human resources policy and is ready to provide in the future any information requested by the Executive Board.

141. The committee noted that the draft ITAD study indicates a payroll of 491, yet the table shows only 407 staff. A reconciliation of the numbers is provided in Annex III hereto. The secretariat clarified that the IEE report shows all staff that are paid through the IFAD payroll system, including staff from the Office of Evaluation, under supplementary funds, APOs and non-IFAD, while Table 12 of the POW/B document shows the total number of IFAD staff funded by the Administrative Budget, PDDF, one-time costs, and the supplementary funds administrative budget.

142. With regard to consultants, the established rules under Chapter XI of IFAD's human resources manual are as follows:

- there is no limit to the number of contracts a consultant may be awarded in a given year;
- there is no limit to the number of times a consultant can be recruited over time;
- however, at any given time, a single contract cannot exceed six continuous months (180 days);
- if a contract reaches six continuous months (180 days), there is a forced one-month break;
- when a consultant is awarded a "retainer contract", such contracts may span a full year but may only actually consist of a maximum of six months of work (180 continuous days).

Audit Committee's Comment:

143. The committee suggested that the "real number" of people employed by IFAD (i.e. full-time equivalents) be indicated each year according to the ITAD presentation, and wondered why Office of Evaluation staff was not included anymore as part of IFAD since it is still on the Fund's payroll.

Secretariat's Response:

144. The response to the IEE covered the years 1994 to 2003 during which the Office of Evaluation was part of IFAD. From 2004 onwards, the Office of Evaluation is being considered independent and consequently its budget is now also separate from IFAD's Administrative Budget. In Annex III hereto, the presentation of data for 2004 and 2005 is slightly different than for 1994-2003, to reflect the Office's independent status and also in order to be able to cross-reference the figures into the 2005 POW/B document.

III. ANALYSIS OF GROWTH OF STAFF AND CONSULTANTS BETWEEN 1994 AND 2005 BY THE HUMAN RESOURCES OFFICE

Introduction

145. It should be noted that the number of **regular approved posts** within IFAD in 2003 and 2004 was 315.5. All other appointments of staff – whether they are within the Administrative Budget or from extra budgetary sources – are considered temporary. As mentioned in the IEE report, temporary staff, who may be professional or support staff, are divided into: those with fixed-term conditions³ and an appointment of one year or longer; and those without fixed-term conditions, appointed for less than 11 months.

146. The distinction between the number of people or staff employed by IFAD as opposed to the number of person-days or full-time equivalents (FTEs) should be clarified at the outset. When preparing the Administrative Budget, IFAD looks at the number of approved regular posts available as well as the number of temporary person-days each division will require.

³ Fixed-term conditions are also referred to as fixed-term entitlements, which should not be confused with full-time equivalents.

147. Only after the end of 2004 will it be possible to compare actual figures for 2004 with projected changes in 2005.

Growth in Staff Numbers

Financing Source: Administrative Budget

148. Between 1994 and 2003, the Administrative Budget financed an increase of **69** FTEs, bringing the total number of FTEs to **356** in 2003. The number of FTEs in 2005 is proposed at **351**.

149. Between 1994 and 1999, there was a net increase of **8** FTEs due to the absorption of staff from the Special Programme for sub-Saharan African Countries Affected by Drought and Desertification (3 Professional and 5 General Services).⁴ This transfer of staff took place over several years but concluded in 1996, and the full absorption was reflected in the September 1996 POW/B document.⁵

150. Under the General Service category, the main increase in staff numbers was in 2001 when the Executive Board approved the conversion of 23 long-term temporary staff to fixed-term regular positions, totalling USD 899 000 in incremental costs.⁶ Offsetting reductions were made in other categories of the Administrative Budget and the Programme Development Financing Facility.⁷ In the same year, 13 non-staff professionals were “regularized” under Chapter X arrangements.⁸

151. During the same period, the Fund underwent several re-engineering exercises (1995, 1996, 2002), with the result that 10 posts were frozen and not staffed. The corresponding Administrative Budget was reduced when this occurred, and then restored when the posts were re-established under new position profiles. The impact of the 1995-96 re-engineering was reflected in the restoration of **10** staff positions (3 General Services and 7 Professionals) with a corresponding “increase” of USD 677 000 in staff costs. This increase was offset, however, by a reduction in non-staff costs.⁹

152. The remaining increase of **15** FTEs is accounted for in the short-term temporary staff category, which began to increase in 2001; these positions were funded through reallocations from contingency funds. The Executive Board was informed of this allocation in 2001.¹⁰

Financing Source: Extra budgetary - Hosted Organizations, Supplementary Funds and PDFF:

153. If one counts the staffing levels due to hosting of partner organizations, there were indeed 23 FTEs financed by hosted organizations in 2003, e.g. the Belgian Survival Fund, the Global Mechanism and the International Land Coalition.

⁴ Document EB 1995/55/R.49, Integration of the Operations and Resources of the Special Programme for Sub-Saharan African Countries Affected by Drought and Desertification into the Regular Programme and Resources.

⁵ Document GC 19/L.4/Add.1, Programme of Work and Budget of IFAD for 1996, Table 6.

⁶ Document GC 24/L.8/Add.1, Programme of Work and Budget of IFAD for 2001, Table 6 and para. 92.

⁷ *Ibid.*, para. 92.

⁸ Document GC 24/L.8, para.48.

⁹ Document GC 20/L.4/Add.1, Programme of Work and Budget for IFAD of 1997, para. 79.

¹⁰ Document EB 2001/74/INF.8, Allocation of Contingency under the Budget of IFAD for 2001.

154. In addition, staffing numbers may also include 54 staff in positions financed by governments through the APO scheme or the provision of supplementary funds. These are detailed as follows:

- the 2003 staff figures include **27** FTEs that are APOs;
- **15** FTEs were financed under supplementary funds or grants; and
- **12** FTEs were financed through administrative funds provided by the funding governments to manage supplementary and APO funds.

155. In addition to the above, the figures for 2003 also include **2** staff employed by the IFAD Credit Union, which is self-financing, and 16 FTE positions financed through PDFF funds. These are mainly to support staff in design and implementation work.

Growth in Number of Consultant-Days

156. The IEE states that over the period 1994-2003 the total number of consultant-days grew from approximately 33 000 to 48 000. Below we provide information on this growth and its source of financing:

- (a) In 2003, the Strategic Change Programme (SCP) was in full implementation. As part of the SCP budget approved by the Board in December 2000, a budget was provided to replace staff that were involved full-time with the SCP. The total number of consultant-days came to **1 800 days**, mostly to replace staff in the Finance and Administration Division (specifically in the FC, FA and FM units).
- (b) The increase in consultant-days in the Office of the President relates to hosted organizations (the Global Mechanism and the International Land Coalition), which **amounted to 3 600 days**, financed from their budget and not from IFAD's Administrative Budget.
- (c) The growth in consultant-days was also financed by the increased availability and disbursement of supplementary funds between 1994-2003, provided mainly by Denmark, Finland, France, Italy, Japan, the Netherlands and the United Kingdom. These funds support design and implementation activities, theme-specific studies and workshops, and strategy development and partnerships. The use of these funds increased over the period from approximately USD 500 000 in 1994 to approximately USD 2.5 million in 2003.¹¹ This additional amount of USD 2.0 million has allowed the financing of approximately **3 300 consultant-days**.¹²
- (d) The remainder of the growth in consultant-days (approximately 6 000 days) can be attributed to various factors:
 - **Less reliance on projects initiated by cooperating institutions.** Table 9 of the portfolio progress report (April 2004) shows that IFAD has a portfolio of 194 projects. The majority of these projects are IFAD-initiated, and 14 projects are directly supervised by IFAD. Clearly, this has an impact on the number of consultants recruited to conduct follow-up work; in the case of projects supervised directly by IFAD, these consultants are responsible for such supervision. Resources have been reallocated from PDFF design to PDFF supervision/follow-up to cover the additional needs in the area of portfolio follow-up.
 - **Less reliance on the FAO Investment Centre.** In the past the FAO Investment Centre was requested to undertake formulation work on behalf of IFAD. Available statistics show that the number of projects entrusted to the centre has decreased significantly, hence shifting work to IFAD consultants at a similar or even lower cost.

¹¹ The figures are based on IFAD's Financial Statements (1994) and records and data from the ER, FC and PD units (2003).

¹² The total number of days is based on an average cost of USD 600 per consultant-day, which includes fees and travel costs.

Concluding Remarks

157. The above information on how IFAD financed the growth in staff and consultant-days highlights that:

- Staff position increases amounting to 69 FTEs (from 287 in 1994 to 356 in 2003) were all decisions approved by IFAD's Governing Bodies and financed out of the Administrative Budget.
- An additional 79 FTEs¹³ included in the 2003 staff figures are funded through extra budgetary financing from hosted organizations (e.g. the Belgian Survival Fund, the Global Mechanism and the International Land Coalition) or governments that finance APOs or supplementary funds; this increase is not financed out of IFAD's Administrative Budget.
- A further 16 FTEs are financed by the PDFF to support design and implementation activities in accordance with approved use of the PDFF by the Executive Board.

158. With regard to the growth in consultant-days from 33 000 to 48 000, consideration needs to be given to the following:

- Owing to SCP implementation, in 2003 approximately **1 800 consultant-days** represent a temporary increase financed by one-time costs.
- Increased work demands and workload have been financed through increased supplementary funds provided by several donors. This represents approximately 3 300 consultant-days.
- Consultants hired by the Global Mechanism and the International Land Coalition (hosted organizations) are accounted for under the Office of the President (see Table 3 on page 9 of the IEE report), and amounted to 3 600 days. They are financed from these organizations' budgets and not from IFAD's Administrative Budget.
- Consultants are being hired for supervision and formulation work that used to be performed by cooperating institutions. This accounts for some **6 000 consultant-days**.

IV. IFAD'S PROGRAMME OF WORK

159. IFAD proposes a 4.5% increase in its lending programme. The committee requested to know: (i) if this will continue to permit a gradual decline in the trend in Advance Commitment Authority; and (ii) the basis used by IFAD to project an increase in demand for loans and grants.

160. The secretariat responded that IFAD had proposed a lending and grant programme for 2005 that was within the authority provided under the Sixth Replenishment agreement: the projected recourse to Advance Commitment Authority would not exceed the limit of three years of reflows, which are estimated at approximately USD 570 million. The Executive Board will have the opportunity in 2005 to monitor the resource position of the Fund and make adjustments in the level of operations if necessary. The proposed lending and grant programme is prepared on the basis of demand among the borrowing countries, within the context of available resources.

161. The committee asked how IFAD links the number of projects to the performance-based allocation system (PBAS) and if there is demand for 28 projects. The secretariat responded that the result of the PBAS is expected to be smaller targets with an increased number of projects. The desired number of projects will reflect the minimum under the PBAS. In 2005, we expect to present 28 projects but, since this is a new system of allocation, we still need to build experience based on results.

¹³ This figure includes 2 FTE employees of IFAD's Credit Union.

Audit Committee Comment/Question:

162. Paragraph 10, Annex IV of the 2005 POW/B document indicates that project-type investments will only occur within “learning and innovation logic” or “in exceptional circumstances in which special management mechanisms are essential for impact.” Is this in line with the repeated assurances from senior management that IFAD will continue to fund projects and not engage in sector or general-budget-support operations with other donors or alone?

Secretariat’s Response:

163. In line with directions from the Board, IFAD’s country-level engagements must increasingly be within the context of operations coordinated by the government and the donor community. In many countries this will be within the framework of poverty reduction strategy papers and sector strategies, and in some, within the context of an agricultural sector-wide programme. Given this framework, IFAD’s operational instruments are either stand-alone projects or in support of larger sector-wide programmes, funded by loans or grants, each of which was approved by the Board. This is in line with repeated senior management assurances that IFAD will not provide general budget support. All initiatives take full account of the new harmonized development architecture existing in many countries. Annex IV, Paragraph 10 of (on the Eastern and Southern Africa region) confirms this by indicating that any IFAD project outside of this coordination framework with governments and the donor community would need to have a very strong learning and innovation logic in order to justify IFAD support.

Audit Committee Comment/Question:

164. IFAD continues to fund field presence on an ad hoc basis outside the Field Presence Pilot Programme. For instance, Annex IV, paragraph 13, of the POW/B document discusses Mozambique and Madagascar. Are they not part of the programme? Provide a list of all field presence operations by country, source of funding, total costs, and when initiated.

Secretariat’s Response:

165. Please refer to Annex V hereto.

Audit Committee Comment/Question:

166. Paragraph 24 of Annex IV to the POW/B document discusses IFAD’s aim “of producing changes in institutions and budget structures in Latin America and the Caribbean countries”. Is this realistic, given the size and resources available to IFAD? Isn’t the logic of the PBAS to design projects in good policy environments that countries themselves have already put in place?

Secretariat’s Response:

167. Poverty in that region is mainly a rural phenomenon, especially extreme poverty. Public expenditures and international lending for rural poverty reduction (other than from IFAD) have principally focused on human development (education of the next generation and health), safety nets (for income shocks and transition periods) and welfare (social security). These programmes are easier to manage than programmes geared towards income generation (i.e. such as those proposed by IFAD), as they largely consist of disbursements without the need to promote entrepreneurial activities for the rural poor.

168. The objective of IFAD programmes is to create self-sustaining sources of income for the rural poor, as opposed to welfare transfers. Lending and national budget allocations for these activities have fallen sharply. It is our contention that this is because the dynamics of rural poverty and the conditions for competitiveness have not been properly addressed. As explained above, the approach requires

much soft engineering in addition to hard and large cash expenditures. It also requires national coordination, regional development, institutional reconstruction, increased access to productive assets for the rural poor and the promotion of organizations.

169. It is our objective to influence governments to change the way they finance rural development from mitigative public expenditure in support of welfare and safety nets, to public investment to create economic opportunities for the rural poor.

170. There are several instruments that IFAD's Latin America and the Caribbean Division will use to achieve this objective. The lending programme is one of them, and the impact is related to the type and quality of programmes proposed rather than the amount of money invested directly by IFAD. We must not forget also that we are working in partnership with other international financial institutions and bilateral agencies, and our programmes should initiate an (innovative) process of change.

Audit Committee Comment/Question:

171. Paragraph 34 of Annex IV to the POW/B document indicates the division will implement the recommendations of the Independent External Evaluation. This study is not yet completed. The Board will discuss the findings and recommendations and provide guidance to management. Shouldn't this review be completed before planning any action?

Secretariat's Response:

172. Yes, a full review will be made of the IEE report and then the appropriate action will be taken in a planned manner. The Near East and North Africa Division is merely pointing out that they expect some of their ongoing tasks in 2005 to be directed by the IEE.

173. The committee requested to know why the Pacific Island region is specifically indicated in paragraph 21 of the POW/B document. The secretariat responded that this is the result of an integrated process between the External Affairs Department and the Programme Management Department.

174. The committee requested to know the breakdown of the grant programme. Country grants are 23% and the PDFF is 27%. This should have been 50-50, in line with the IFAD policy for grants (document EB 2003/80/CRPI). Moreover, the secretariat has not produced any country grants for the Board's review.

175. The secretariat responded that the grant programme is divided equally between a country-specific window with regional weighting (50%) and a global/regional window (50%). The country-specific window is further split into 23% for regular grants and 27% for transfers to the PDFF. The global/regional window is broken down as follows: 10% for small grants and 40% for allocations based on a competitive process.

176. The committee requested to know how IFAD manages and plans its relationship with cooperating institutions.

177. IFAD's requirements vis-à-vis cooperating institutions have increased in terms of the number of activities requested, including increased financial control and reporting. Therefore, the relationship is moving towards a fixed fee for minimum supervision plus a list of additional items to be performed by the cooperating institution or other service provider on request. IFAD is currently negotiating with the United Nations Office for Project Services (UNOPS) on this topic as well as on payment scheduling to enable UNOPS to manage its resources with foresight. Through field presence and an improved communications strategy, IFAD is working to render its specificity more visible in the field. IFAD is also investigating the possibility of diversifying with respect to cooperating institutions in order to reduce risk related to business continuity.

178. The committee asked about the expected deliverables with respect to the institutional priorities in Table 7 of the POW/B document.

179. The secretariat responded that, as mentioned in paragraph 22, “the improved linking of budgets and results to the strategic framework will provide valuable information for future planning and resource allocation through the work of the Strategy Planning and Budget division.” These improvements will be achieved incrementally starting with key performance indicators in 2005 and will be timed in the context of the many changes the Fund is going through. The first step is to complete implementation of the PeopleSoft Enterprise Resource Planning system followed by a period of learning in order to arrive at results.

180. The committee noted a decrease in Institutional Priority 5 (Mobilize and Manage Financial Resources for Rural Poverty Reduction Programmes) from 13-9%.

181. The secretariat responded that the allocation in this table shows how much of the Administrative Budget is expected to be used for resource mobilization. There is no shift in objectives but a shift in how internal resources may be employed in order to achieve the objectives.

182. The committee asked how much IFAD is spending on administrative costs to support its lending programme with respect to other international financial institutions.

183. The secretariat responded that paragraph 53 of the POW/B document shows that IFAD spends 8% of its Administrative Budget and PDFF on governance and 22% on support services. The corporate support costs of the World Bank and the European Bank for Reconstruction and Development are respectively 29% and 36% of their total administrative budgets.

Audit Committee Comment/Question:

184. Institutional Priority 1 (Managing Loan/Grant Funded Country Programme for Results) shows a slight decrease in the proposed budget compared with last year. Institutional Priority 3 (Promote Inclusive and Enabling Poverty Reduction Policies at Local, National, Regional and Global Levels) shows a significant increase (going from 8% to 13% of the budget). Should not the operational programme of loans and grants, inclusive of the RIMS and the PBAS, have the highest priority so as to improve the quality of projects and measurable results? What are the criteria used for the institutional priority allocations?

Secretariat's Response:

185. Activity-based budgeting (ABB) is a new tool and staff is gradually learning how to use this tool. As shown in the activity tree in Annex II to the POW/B document, the building of figures at the institutional priority level starts with each division inputting data at the lowest level in the activity tree. This new process requires a period of learning, especially in how to interpret activities in the budgeting process. During these initial years of ABB implementation, the budget may not reflect actual results, but data will gradually become more accurate. Starting in 2005, FS will be analysing budget execution by activity in order to improve the fit between the Fund's operations and its budget.

186. Paragraph 53 of the POW/B document refers to the fact that activities under Institutional Priority 1 (Managing Loan/Grant Funded Country Programmes for Results) and Institutional Priority 2 (Manage Grant-Funded Research and Capacity-Building Programmes for Results) should also be considered in terms of both the Administrative Budget and the PDFF to see the overall priority of these two institutional priorities.

V. WORK PROGRAMME AND BUDGET FOR 2005 OF THE OFFICE OF EVALUATION

187. A preview of the Work Programme and Budget for 2005 of the Office of Evaluation (OE) was presented to the Evaluation Committee and the Executive Board in September 2004; it received support for the broad directions and overall proposals contained in the document. Subsequently, the Evaluation Committee met on 15 October to discuss the comprehensive 2005 Programme of Work and Budget, which was supported by that committee's members. This document has been presented for the Audit Committee's review, after which it will be presented to the Board for endorsement to be submitted to the Governing Council for approval. In total, the OE budget undergoes five review stages by the Governing Bodies and their committees.

188. Concerning the rationale for the contingency budget line and how it is calculated, OE gave the following reply. The OE budget is separate and independent from IFAD's budget. Therefore, there is no mechanism other than the contingency budget line to provide for unforeseen expenditures. The contingency budget for 2005 is calculated at 2.5% of the total OE budget to cover unforeseen costs related to the work of the Evaluation Committee (revision of its terms of reference and rules of procedure yet to be finalized) and any unforeseen changes in staff entitlements or UN salary increases.

189. Inasmuch as the OE budget includes both a contingency provision and a carry-forward mechanism, the committee asked if OE should not choose between those two possibilities. The Director of OE assured the committee that he would not ask for a carry-forward of the unused part of the contingency provision. Moreover, from 2006 on, OE should no longer need a contingency provision since the Evaluation Committee's terms of reference and rules of procedure will have been finalized by then. The Audit Committee was satisfied with this "virtuous answer".

190. The Audit Committee asked under which budget the field trips are being included. The secretariat responded that field trips by the Evaluation Committee are budgeted under the OE budget.

VI. CONCLUSION

191. In conclusion, the committee is satisfied that its budget review session provided a learning experience for the members as well as for the secretariat. The committee received a significant amount of information in support of the 2005 Programme of Work and Budget, and the secretariat received important feedback on the areas that needed further clarification and on suggested improvements for the 2006 POW/B document. This budget review exercise was challenging and rewarding for both parties, and represented a good start in moving forwards with greater transparency and simplification.

192. One of the most important discussions was on the zero-growth budget and one-time costs. There is obviously a misunderstanding between the Executive Board and the institution. For the Board members, a zero real-growth budget means growth that is strictly limited to inflation; if there is an increase in staff salary or staff number, there should be a reduction in other lines of the budget. Henceforth, the huge growth in IFAD's personnel over recent years and the use of one-time cost presentation are difficult to understand for the Board. Given that staff is the largest component of the budget, this means also that pursuing a rigid logic would "freeze" the institution. Accordingly, there is a question of method: the institution needs to evolve over time in accordance with new methods, new techniques and new goals. A dialogue could usefully be engaged on the adequacy of IFAD's needs and its means, either for the 2006 POW/B exercise or the Seventh Replenishment exercise. A detailed comparison with other institutions would be welcome, taking into account the specificity of IFAD's action in the field. Regarding this point, the secretariat explained that the Fund is working to secure a clear focus on expected results throughout the management process and towards becoming more of a results-based institution. First, IFAD's budget process and budget ratios will be compared in 2005 with those of other international financial institutions (see paragraph 53 of the POW/B document) so as to have a more comprehensive comparison for the next POW/B exercise.

193. In a more technical vein, the committee has made suggestions for organizing next year's work:

- A comparison between budgeted and actual POW/B figures for recent years could be included in the exercise; on this occasion, the issue of the impact of exchange rate movements on the budget could be deepened;
- Given the particular nature of staff personnel, a specific examination could be envisaged (by one or two members of the committee) to provide a better understanding of the evolution. On the issue of creation of posts (regardless of the category), the committee proposed that every new post be presented in the POW/B and specific approval be requested. In this regard, the secretariat suggested that Board approval of every individual post would not be in accordance with leading-edge budget management procedures, whereby the budget is managed according to full-time equivalents instead of posts. The committee took note of this suggestion and recognized that policies could differ from one international financial institution to another (for example, the Inter-American Development Bank uses a post-by-post examination while the European Bank for Reconstruction and Development uses an envelope process); the committee would like the Board to react specifically on this point;
- A more precise doctrine concerning carry-forward should be elaborated, as at other international financial institutions. For example, should the carry-forward mechanism be applied to recurrent expenditures as well as one-time costs? How should amounts carried forward be reconciled with internal transfers between funding categories? A detailed report on the present use of this flexible mechanism would be a good starting point for such a discussion. The secretariat has already indicated that IFAD will consider the carry-forward procedures adopted by other institutions and that the decentralization procedures (which will come into effect on 1 January 2005) will specify rules on the transfer of budget allocations between activities; and
- Additional work should be pursued to clarify some expenditures, for instance: (i) the committee's meetings and mandate do not change each year; henceforth, the provision for any change should be exceptional and not systematic; (ii) for exceptional expenditures, when they are of major importance to the institution (e.g. replenishment exercises), sufficient information should be provided in the POW/B to justify the funds required. Such a review is already envisaged by the secretariat once a definition is finalized of one-time costs in 2005.

194. The committee is aware that its own work and methods could be improved and its analysis deepened. The members intend to dedicate next year's June seminar with the External Auditor and the secretariat to the budget process. The committee also welcomes any comments and suggestions from this Board's session.

195. Next year, specific efforts could be undertaken to incorporate some comparisons with other international financial institutions. The secretariat has already done some work in this direction and the effort already begun in this field during the Audit Committee's seminar held in June 2004 will be helpful. Thought should also be given to the means by which we can capitalize upon knowledge and expertise developed during the year through "ordinary" audit work. Indicators could probably be elaborated to provide an idea of the institution's efficiency, e.g. number of agents/number of projects and grants, comparison with other international financial institutions, etc.

196. In conclusion, the committee intends to continue moving in the right direction to fulfil its mandate from the Board and to serve the institution in the best way possible.

List of Annexes

- Annex I: Comparison of Budgeted to Actual Expenditures
- Annex II: Administrative Budget Details
- Annex III: Summary of Human Resources
- Annex IV: Breakdown of PDFF by Activity and by Expense Type
- Annex V: Field Presence Pilot Programme: Basic Information
- Annex VI: Space Comparison between Current Headquarter Buildings and the New Building
- Annex VII: Comparative Information on Costs for IFAD V, VI and VII Consultations
- Annex VIII: Details of Some Expenditure Lines from Table 8 of the 2005 POW/B Document

COMPARISON OF BUDGETED TO ACTUAL EXPENDITURES
(USD '000)

	2000			2001			2002			2003			2004	2005
Administrative Budget	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Budget	Budget
EUR/USD Exchange Rate		1.081			1.132			1.072		0.896	1.070	⁴	0.898⁶	0.819
Staff Salaries and Benefits	24 373	25 075	97	26 053	27 153	96	27 638	29 505	94	34 547	32 934		36 841	42 798
Office and General	5 335	5 349	100	5 058	5 282	96	5 499	5 573	99	5 498	4 741		5 564	
Other Operational (Policy and Resource Mobilization)	2 086	2 378	88	2 117	2 432	87	1 732	2 012	86	2,746	1,895		1 808	
Cooperating Institutions and Consultants	10 929	13 292	82	11 892	13 126	91	162	198	82				-	10,405 ³
Programme Activities (Evaluation and Studies)	1 748	1 835	95	1 858	1 876	99	1 849	1 939	95	1 798	1 876		79 ⁵	
Governing Bodies and other Official Meetings	1 413	1 749	81	1 701	1 701	100	2 401	2 401	100	1 528	1 839		2 180	
Contingency		250		197	250	79		100			100		100	100
Total Administrative Budget	45 884	49 928	92	48 876	51 820	94	39 281	41 728	94	46 117	43 385		46 572	53 303
PDFF	-	-	-	-	-	-	23 160	25 932	89	25 041	27 563	-	28 448	29 968
One-Time Costs	-	-	-	561	761	74	1 559	1 753	89	1 789	1 648		5 171	3 573
Strategic Change Programme (SCP)														
Start-up	328	770	43	-	-	-	-	-	-	-	-	-	-	-
Design Phase ¹	869	1 300	67	170	1 300	13	-	-	-	-	-	-	-	-
SCP ²	-	-	-	468	15 500	3	2 724	-	-	6 181	-	-	-	-
Total SCP	1 197	2 070	58	638	16 800	4	2 724	-	-	6 181	-	-	-	-

¹ Previously called Process Re-engineering Programme.

² An SCP budget of USD 15.5 million was approved in 2001 to be used over a number of years. Expenditures in 2002 and 2003 are against this original budget.

³ Non-staff costs for 2005 are composed of the following:

Building Maintenance and Security Subcontract Costs	2 402
Duty Travel	1 092
Information and Communication Technology Services	2 269
Printing, Supplies and Equipment Rental	2 225
Interpreters and Translators	1 335
Other	1 082
Total	10 405

⁴ The detailed budget for 2003 is available only at an exchange rate of 1.070. Since the actual results for 2003 are at an average of 0.896, a valid comparison of usage cannot be made.

⁵ The large reduction of programme activities is due to the separation of the Office of Evaluation in 2004.

⁶ The 2004 budget was presented at 0.898, which is the rate used in the POW/B document presented to the December 2003 session of the Executive Board. The 2004 budget was approved by the Governing Council at 0.780.

ADMINISTRATIVE BUDGET DETAILS
(USD '000)

	2000			2001			2002			2003			2004	2005
	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Budget	Budget
Staff Salaries and Benefits														
Salaries and Post Adjustment	14 439	14 654	99	15 724	15 777	100	16 854	16 871	100	18 283	18 738	98	21 498	42 798
Education Grant and Other Allowances	1 582	1 581	100	1 615	1 639	99	1 575	1 769	89	2 514	1 847	136	2 251	-
Pension and Medical Plan Contributions	4 933	5 248	94	5 371	5 562	97	5 545	6 232	89	6 510	6 754	96	7 202	-
Home Leave	270	274	99	265	265	100	285	285	100	279	294	95	299	-
Repatriation and Termination Payments	1 305	1 398	93	1 216	1 474	82	1 268	1 710	74	1 525	1 802	85	1 916	-
Relocation and Recruitment	173	333	52	325	382	85	347	364	95	544	247	220	298	-
Short-Term Temporary Staff	784	968	81	754	1 105	68	1 164	1 404	83	4 359	2 579	169	2 631	-
Overtime	151	210	72	155	219	71	150	225	67	398	272	146	323	-
Training Expenses	404	409	99	314	416	75	328	327	100	135	401	34	423	-
Separation/Placement Issues	332	-	n/a	314	314	100	122	318	38	-	-	-	-	-
Total	24 373	25 075	97	26 053	27 153	96	27 638	29 505	94	34 547	32 934	105	36 841	42 798

ADMINISTRATIVE BUDGET DETAILS
(USD '000)

Other Operational and Administrative Expenses	2000			2001			2002			2003			2004	2005
	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Budget	Budget
Duty Travel	1 441	1 694	85	1 316	1 621	81	991	1 280	77	-	1 120	-	983	
Special Studies	47	49	96	96	106	91	94	80	118	-	113	-	15	-
Communication and Networking	214	236	91	268	268	100	218	219	100	-	211	-	231	-
Annual Report	101	102	99	89	89	100	87	87	100	-	283	-	345	-
Other Publications	180	200	90	220	218	101	189	190	99	-	-	-	-	-
Support for UN Committees	70	67	104	90	90	100	114	115	99	-	126	-	151	-
Hosting of Meetings	33	30	110	38	40	95	39	41	95	-	42	-	83	-
Subtotal	2 086	2 378	88	2 117	2 432	87	1 732	2 012	86	2 746	1 895	145	1 808	-
Office and General Expenses (including Telecommunications)	5 335	5 349	100	5 058	5 282	96	5 499	5 573	99	5 498	4 741	116	5 564	
Total	7 421	7 727	96	7 175	7 714	93	7 231	7 585	95	8 244	6 636	124	7 372	

ADMINISTRATIVE BUDGET DETAILS
(USD '000)

	2000			2001			2002			2003			2004	2005
	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Budget	Budget
Strategy Development	63	66	95	54	66	82	58	69	84	-	-	-	-	-
Appraisals (Consultants)	1 449	1 844	79	1,272	1 685	75	-	-	-	-	-	-	-	-
Appraisals (Cooperating Institutions)	409	-	n/a	258	-	n/a	-	-	-	-	-	-	-	-
Project Development Subtotal	1 921	1 910	101	1 584	1 751	90	58	69	84	-	-	-	-	-
By Cooperating Institutions	7,102	8,457	84	7,644	8,220	93	-	-	-	-	-	-	-	-
IFAD Follow-Up (Consultants)	637	1,201	53	1,056	1,127	94	-	-	-	-	-	-	-	-
Supervision of TAGS (Consultants)	146	198	74	145	194	75	-	-	-	-	-	-	-	-
Direct Supervision	258	420	61	497	617	81	-	-	-	-	-	-	-	-
Supervision Audit Loans and Grants	-	35	n/a	-	25	n/a	11	26	42	-	-	-	-	-
Supervision and Related Costs Subtotal	8 143	10 311	79	9,342	10 183	92	11	26	42	-	-	-	-	-
Knowledge Management	-	-	-	70	99	71	93	103	90	-	-	-	-	-
Staff Travel														
Appraisals and Supervision Related	817	983	83	799	982	81	-	-	-	-	-	-	-	-
Direct Supervision	48	88	55	97	111	87	-	-	-	-	-	-	-	-
Subtotal	865	1 071	81	896	1 093	82	-	-	-	-	-	-	-	-
Total Cooperating Institutions and Consultants	10 929	13 292	82	11 892	13,126	91	162	198	82					
Total Evaluation and Studies	1 748	1 835	95	1 858	1 876	99	1 849	1 939	95	-	1 876	-	79	-

ADMINISTRATIVE BUDGET DETAILS
(USD '000)

Governing Bodies and Other Official Meetings	2000			2001			2002			2003			2004	2005
	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Actual	Budget	% Used	Budget	Budget
Governing Council	552	552	100	576	576	100	700	700	100	-	542	-	647	-
Executive Boards	635	1 070	59	1 125	1 125	100	1 218	1 218	100	-	1 297	-	1 533	-
Consultation on IFAD's Resources	226	127	178	-	-	-	483	483	100	-	-	-	-	-
Total	1 413	1 749	81	1 701	1 701	100	2 401	2 401	100	1 528	1 839		2 180	-
Contingency		250		197	250	79		100			100		100	100
Grand Total	45 884	49 928	92	48 876	51 820	94	39 281	41 728	94	46 117	43 385	95	46 572	53 303

SUMMARY OF HUMAN RESOURCES
(USD '000)

1994	ADMINISTRATIVE BUDGET		EXTRABUDGETARY																			
			APO		Credit Union		APO + Supp. Funds Admin.		PDFF		TAP		TAG		BSF		GM		ILC		TOTAL	
	IFAD																		NON-IFAD			
	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs
Regular Staff	23 074	124	1 055	10	86	1	623	3							181	1					25 019	139
		159						9								2					0	170
Short-Term Temporary Staff	850	4																			850	4
Overtime and Training	384																				384	0
TOTAL	24 308	287	1 055	10	86	1	623	12	0	0	0	0	0	0	181	3	0	0	0	0	26 253	313

1999	ADMINISTRATIVE BUDGET		EXTRABUDGETARY																					
			APO		Credit Union		APO + Supp. Funds Admin.		PDFF		TAP		TAG		BSF		GM		ILC		TOTAL			
	IFAD																		NON-IFAD				per IFAD records	
	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs		
Regular Staff	26 067	134	1 134	23	97	1	709	3							260	2	375	3	171	1	28 813	167		
		158			36	1		9								2		1		1	36	172		
Short-Term Temporary Staff	1 102	17					353		370	9					22						1 847	26		
		14																			0	14		
Overtime and Training	665						24														689	0		
TOTAL	27 834	323	1 134	23	133	2	1 086	12	370	9	0	0	0	0	282	4	375	4	171	2	31 385	379		

SUMMARY OF HUMAN RESOURCES
(USD '000)

2003	ADMINISTRATIVE BUDGET		EXTRABUDGETARY																		TOTAL	
			APO		Credit Union		APO + Supp. Funds Admin		PDFF		TAP		TAG		BSF		GM		ILC			
	IFAD																NON-IFAD				per IFAD records	
	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FT Es	USD	FT Es	USD	FTEs	USD	FTEs	USD	FT Es	USD	FTEs	USD	FT Es
Regular Staff	29 682	135	1 185	27	103	1	796	3							331	2	1 812	9	353	3	34 262	180
		182			54	1		9								2		5		1	54	200
Short-Term Temporary Staff	2 579	16					398		641	7	1 023	13	157	1	40	1					4 838	38
		23							464	9				1							464	33
Overtime and Training	673						20														693	0
TOTAL	32 934	356	1 185	27	157	2	1 214	12	1 105	16	1 023	13	157	2	371	5	1 812	14	353	4	40 311	451

**SUMMARY OF HUMAN RESOURCES
(USD '000)**

2004	ADMINISTRATIVE BUDGET		EXTRABUDGETARY																		TOTAL		
			APO		Credit Union		APO + Supp. Funds Admin		PDFF		TAP		TAG		BSF		GM		ILC				
			IFAD														NON-IFAD				per IFAD records		
	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	
Regular Staff	33 464	127	1 484	14	243	2	991	12															
		174					158	3															
Short-Term Temporary Staff	2 631	21							1 739	22													
Overtime and Training	746																						
Subtotal	36 841	322	1 484	14	243	2	1 149	15	1 739	22	0	0	0	0	0	0	0	0	0	0	0	0	0
One-Time Costs	686	11																					
	37 527	333																					
Office of Evaluation*																							
Regular	1500	14.5																					
Short-Term Temporary	256	1																					
OE Total	1756	15.5																					
GRAND TOTAL	39 283	348.5																					

* From 2004 onwards, the Office of Evaluation is considered independent from IFAD.

**SUMMARY OF HUMAN RESOURCES
(USD '000)**

2005	ADMINISTRATIVE BUDGET		EXTRABUDGETARY																		TOTAL		
			APO		Credit Union		APO + Supp. Funds Admin		PDFF		TAP		TAG		BSF		GM		ILC		TOTAL		
IFAD																		NON-IFAD				per IFAD records	
	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	USD	FTEs	
Regular Staff	37 646	138	710	18	251	1	1 274	5															
		165				1		8															
Short-Term Temporary Staff	4 338	39					1 124	13	2 781	30													
Overtime and Training	814																						
TOTAL	42 798	342	710	18	251	2	2 398	26	2 781	30	0	0	0	0	0	0	0	0	0	0	0	0	0
One-Time Costs	584	9																					
	43 382	351																					
Office of Evaluation																							
Regular	1 837	15.5																					
Short-Term Temporary	302	2.5																					
OE Total	2 139	18																					
GRAND TOTAL	45 521	369																					

NB: Extrabudgetary information for 2005 was not available at the time of preparation.

TAG: Technical Assistance Grant
TAP: Technical Assistance Programmatic Fund

BREAKDOWN OF PDFF BY ACTIVITY AND BY EXPENSE TYPE

BREAKDOWN OF 2005 PDFF BY INSTITUTIONAL PRIORITY AND BY IFAD DIVISIONS					
(USD '000)					
	OPV	FAD	PMD	Sub-totals by Priority	Percentage
IP1 Loan-Funded Country Programmes	45	30	25 659	25 734	85.87
IP2 Manage Grant Global/Regional		9	981	990	3.30
IP3 Policy and Strategy Promotion			2 499	2 499	8.34
IP4 Knowledge Management			306	306	1.02
IP5 Mobilize/Manage Resources		11	72	83	0.28
IP6 Strategic Partnership Building			228	228	0.76
IP7 Develop Innovative Approaches			82	82	0.27
IP8a Governance			45	45	0.15
IP8b Management			1	1	0.003
Total	45	50	29 873	29 968	100.00
BREAKDOWN OF 2005 PDFF BY EXPENSE TYPE					
(USD'000)					
	OPV	FAD	PMD	Sub-totals by Expense	Percentage
Cooperating Institutions			9 472	9 472	31.61
Consultants			14 799	14 799	49.38
Other Expenses	17		972	989	3.30
Travel	28	40	1 851	1 919	6.40
Translators		10		10	0.03
Staff Costs			2 779	2 779	9.27
Total	45	50	29 873	29 968	100.00

OPV: Office of the President and the Vice-President

PMD: Programme Management Department

FIELD PRESENCE PILOT PROGRAMME: BASIC INFORMATION									
Focus Country	Division	Countries Covered	Based in	Housed by	Memorandum of Understanding Status/Start Date	Costs/Budget	Date FPPI Becoming Effective	Date Information Submitted to the Executive Board	Status
Congo	PA	D.R. Congo	Kinshasa	UNDP	In process	Budget: USD 75 000 per year for three years	End of 2004 (estimated)	December 2003	Not yet operational
Honduras	PL	Honduras, Nicaragua	Honduras	UNDP	Under preparation	Current exp. USD 4 400 per month; Field Presence Programme budget USD 231 500 for three years	10 February 2004	December 2003	Operational
India	PI	India only	New Delhi	WFP	1 June 2004	Budget and actual per memorandum of understanding: USD 70 000 per year	1 June 2004	December 2003	Operational
China	PI	China, DPR Korea, Mongolia	Beijing	UNDP	Not finalized yet	Budget: USD 26 000 for three years	Early 2005 (estimated)	December 2003	Not yet operational
Senegal	PA	Senegal, Gambia	Dakar	UNOPS	Discussed, drafted and under UNOPS approval process	Budget: USD 75 000 per year for three years	31 December 2004 (estimated)	December 2003	Not yet operational
Sudan	PN	Sudan only	Khartoum	Either UNDP or the Government, yet to be decided			Early 2005 (estimated)	December 2003	Not yet operational
United Republic of Tanzania	PF	United Republic of Tanzania, Malawi	Dar-Es-Salaam	FAO	Final agreements were reached in November 2003 when the position was advertised	Budget: USD 80 000/per year for three years	February 204	December 2003	Operational
Yemen	PN	Yemen only	Sana'a	World Bank ?	In process	Budget USD 80 000 per year for three years	Early 2005 (expected)	December 2003	Not yet operational
Bolivia	PL	Bolivia only	La Paz	UNDP	PL is in the process of initiating a draft agreement/memorandum of understanding for refinement by OL.	Current exp. USD 17 100 for two months; planned budget USD 70 00 per year	Early 2004	April 2004	Operational
Uganda	PF	Uganda only	Kampala	UNDP		USD 243 500 for three years	Early 2005 (expected)	April 2004	Not yet operational

FIELD PRESENCE PILOT PROGRAMME: BASIC INFORMATION									
Focus Country	Division	Countries Covered	Based in	Housed by	Memorandum of Understanding Status/Start Date	Costs/Budget	Date FPPI Becoming Effective	Date Information Submitted to the Executive Board	Status
Nigeria	PA	Nigeria only		UNDP	Draft memorandum of understanding with OL for clearance	Estimated yearly requirement for the Field Coordinator and support staff would be USD 85 400 in year 1, USD 76 452 in year 2 and USD 78 671 in year 3	Early 2005 (expected)	Sep-04	Not yet operational
Viet Nam	PI	Viet Nam only	Hanoi	Yet to be decided	n.a.	USD 225 000 for three years	Mid-2005 (expected)	Sep-04	Not yet operational
Egypt	PN	Egypt only	Cairo	Housed in World Bank, under UNDP arrangements	n.a.	Proposed budget: USD 106 000 for the first year, and USD 67 000 for the next two years	Mid-2005 (expected)	Dec-04	Not yet operational
Ethiopia	PF	Ethiopia only	Addis Ababa	UNDP	n.a.	Proposed budget: USD 80 000 per year for three years	Early 2005 (expected)	Dec-04	Not yet operational
Haiti	PL	Haiti only	Haiti	UNDP	n.a.	Proposed budget: USD 70 000 per year for three years	Mid-2005 (expected)	Dec-04	Not yet operational

SPACE COMPARISON BETWEEN CURRENT HEADQUARTER BUILDINGS AND THE NEW BUILDING

(In square meters)	Current IFAD Buildings		New Building
Office space	Building A	6 280	18 000
	Building B	6 441	
	IFAD 2	3 400	
Subtotal		16 121	
Common support areas (archives, storage, print shop, cafeteria etc.)	Building A	1 500	5 200
	Building B	2 530	
	IFAD 2	-	
Subtotal		4 030	
Conference areas	Building A	-	3 200
	Building B	400	
	IFAD 2	-	
Subtotal		400	
Garages/open areas		parking	parking
	Building A	3 705	125
	Building B	7 208	201
	IFAD 2	2 250	92
Subtotal		13 163	418
Total Surface		33 714	32 500

DRAFT SPACE ALLOCATION OF NEW HEADQUARTERS BUILDING	
Number of closed office spaces	430
Number of open work spaces	250
Number of divisional/departmental meeting rooms	12
Conference area	EB Room, List A, B, C
Cafeteria	
Library	
Bank	
Computer control room	
Inventory/stockroom	
Archives	
Mailroom	
Travel agency	
Credit Union	
Medical offices (nurse)	
Security control room	
Childcare	
Computer training/language training	
Garage	
Technical (facilities) areas	
Print shop	

a
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

ANNEX VII

COMPARATIVE INFORMATION ON COSTS FOR IFAD V, VI AND VII CONSULTATIONS							
Period	1999- 2000		2002		Proposed 2005 Budget		
Consultation	IFAD V		IFAD VI		IFAD VII		
	Budget	Actual	Budget	Actual	Cost per Session	Increase/ Decrease	Increase/ Decrease
Currency	EUR	EUR	EUR	EUR	EUR	EUR	%
Conference set-up/ equipment, furniture and fittings		9 910		11 470	16 500	5 030	44
Security services		4 336		3 400	20 000	16 600	488
Cleaning, technical and labour services		1 498		1 350	6 000	4 650	344
Postage/pouch/courier		3 099		3 360	3 500	140	4
Transportation services		362		1 100	5 000	3 900	355
Printing and supplies		5 988		8 770	9 125	355	4
Hospitality		22 425		27 470	17 390	(10 080)	-37
Staff costs	8 349	4 596	6 306	4 225	13 474	9 249	219
Communications, security and other services	7 360		7 819				
Supplies, printing and miscellaneous	16 121		19 927				
Interpreters	49 806	50 876	42 840	32 799	42 615	9 816	30
Translators	13 648	11 995	11 298	28 229	31 522	3 294	12
Précis writers	5 624	1 320	0	0	0	0	0
Editors	7 373	539	6 991	5 499	7 887	2 388	43
Short-term staff - General Services	14 406	12 885	15 495	20 211	21 812	1 601	8
Overtime	10 571	11 646	11 207	7 483	12 776	5 293	71
ES Total	101 428	89 261	87 831	94 221	116 612	22 392	24
Interim director ¹					25 389		
Contingency for potential costs related to session outside Rome ²					33 415		
TOTAL per session (in euros)	133 258	141 475⁴	121 883	155 366	266 405	52 236	71
Number of sessions ³	7	7	4.25	4.25	5	5	5
Total cost in euros	932 806	990 325	518 002	660 307	1 332 025	261 180	102
Average annual EUR/ USD exchange rate	1.080	1.080	1.072	1.072	0.819	0.819	
Total cost in USD	863 709	916 967	483 211	615 958	1 626 404	318 901	164

- ¹ The Director of the North American Liaison Office (NALO) was transferred to Rome to work on IFAD VII. The cost of an interim Director is USD 155 000 for 2005. The amount of EUR 25 389 is the euro equivalent divided by the number of sessions.
- ² Any sessions outside Rome are expected to be paid by the host country, although a contingency has been provided.
- ³ In 1999, five consultation sessions took place (called - "IFAD's Future Financial Needs"); two consultation sessions were held in 2000.
- ⁴ The actual costs are based on two sessions, as it was not possible to get actual costs for the five sessions held in 1999.

Explanatory Notes Relating to IFAD Consultations Table

The preceding table gives a breakdown of costs per session in euros for IFAD V, VI and VII. This cost per session was then multiplied by the number of sessions either held or proposed to be held in order to arrive at a total EUR cost. Finally, the total EUR cost has been translated into USD using the average annual exchange rate for the year or proposed rate for 2005.

IFAD V:

For 1999, a separate budget provision of USD 343 000 was made for three sessions of the consultation. However, as five sessions of the consultation took place – two more than expected – IFAD had to resort to using contingency funds to cover the additional costs, and consequently a reallocation of USD 272 000 for two sessions was allocated to FA and ES.

As the consultation discussions had still not been completed in 1999, an allocation of USD 141 000 was budgeted for the year 2000. In 2000, a session was held in January and the funds were completely used. A second consultation took place in June, and USD 131 000 was reallocated from the contingency to FA and ES in order to cover the costs.

The records relating to the 1999 actual costs are in the archives, and accordingly we had to calculate the actual cost per session based on the information available regarding the two sessions in 2000. Extrapolating this cost for seven sessions has overstated the actual cost to the extent that the 2000 costs were likely to have been higher than the 1999 costs.

IFAD VI:

The actual costs for IFAD VI reflect the actual amounts expended, but it should be noted that in some cases these expenses had been charged against the regular administrative budget categories rather than the IFAD VI budget itself. We have shown this higher actual cost rather than what was charged against the budget, since it forms the basis of many of the projected costs for IFAD VII.

IFAD VII:

The major reason for the 164% increase in proposed costs for IFAD VII, as opposed to IFAD VI, is the weakening of the United States dollar. Since the majority of costs for consultations are incurred in euros, the unfavourable movement in the EUR/USD rate causes the USD budget to increase. The charging of the interim NALO director accounts for 16% of the increase, while the contingency provided for potential costs (over and above those covered by the host country) of a session outside Rome accounts for 22%.

When comparing total euro costs per session, the overall increase of 71% is due to the increase in security costs brought about by the additional UN security requirements, additional drivers and shuttle buses requested, and the provision for cost of cleaning and technical labour, which had been greatly reduced in a package deal offered by the hotel in 2002.

DETAILS OF SOME EXPENDITURE LINES FROM TABLE 8 OF THE 2005 POW/B DOCUMENT
(USD '000)

Details of Building Maintenance and Security Subcontracting Costs (2005)	
Cleaning and environmental maintenance	961.0
Subcontracted services	580.0
Utilities - Building A	343.0
Utilities - Building B	212.0
Utilities – IFAD/2	306.0
Total	2 402.0
Details of Information and Communications Technology Costs	
Infrastructure management	956.0
Solutions (to IT-related problems)	410.0
Help desk and user support	101.0
Management and administration	759.0
External events	43.0
Total	2 269.0
Details of Printing, Supplies and Equipment Rental	
Internal reproduction services	368.0
Building supplies	51.0
Catering and hospitality	41.0
Communications	23.0
Dispatches and distribution of mail	156.0
Expendable supplies	287.0
Furniture, building equipment and fittings	60.0
General insurance policies	181.0
Goods and services	159.0
Goods and services for three sessions	35.0
Maintenance	34.0
Miscellaneous	368.0
Office and audiovisual equipment maintenance	112.0
Rental of equipment, goods and services	270.0
Technical equipment maintenance	324.0
Telephone and data/LAN system maintenance	74.0
Transportation services (drivers, document delivery, etc)	50.0
Total	2 225.0
Details of Other	
Hospitality	86.5
Miscellaneous	114.5
Consultants	263.0
External Auditors' fees and expenses	122.0
Special audit investigations	23.0
Retreats, seminars and meetings	179.0
Executive Board and Governing Council-related expenses	132.0
Library books and periodicals	162.0
Contributions to United Nations	0.0
Total	1 082.0

