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STRATEGIC PRIORITIES AND PROGRAMME OF WORK AND BUDGET OF IFAD
AND ITS OFFICE OF EVALUATION FOR 2006

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ABBREVIATIONS AND ACRONYMS

| | |
|-------|--|
| ALM | asset liability management |
| COSOP | country strategic opportunities paper |
| FPPP | Field Presence Pilot Programme |
| IEE | Independent External Evaluation |
| IFI | international financial institution |
| IMI | Initiative for Mainstreaming Innovation |
| IPs | institutional priorities |
| ODA | official development assistance |
| PBAS | performance-based allocation system |
| PDFF | Programme Development Financing Facility |
| PRSP | poverty reduction strategy paper |
| RIMS | Results and Impact Management System |
| SCP | Strategic Change Programme |

EXECUTIVE SUMMARY

1. The combination of the Consultation on the Seventh Replenishment of IFAD's Resources and the preparation of an action plan for management's response to the Independent External Evaluation (IEE) of IFAD has made 2005 a very particular year in terms of planning. The Way Forward paper presented at the second session of the Consultation (document REPL VII/2/R.2) and the IEE report (including management's response, document EB 2005/84/R.2) outline how IFAD will move into the future. The direction and priorities detailed in these documents, which adopt a longer-term view, have not been reproduced in detail here. While taking the replenishment negotiations and the response to the IEE into consideration, the present document does not elaborate on IFAD's longer-term strategies but rather focuses on the priorities for 2006 with respect to the programme of work.

2. An action plan to implement management's response to the IEE is to be presented to the Executive Board in September 2005. At the conclusion of the replenishment consultations, the action plan for the IEE response will be merged with the replenishment action plan to present an overall and concise way forward for the Fund. The costing of this overall action plan will include both investment costs and recurring costs, which will be incorporated into the Fund's normal budgetary process.

3. Under the agreed budget process for IFAD, high-level budget figures with strategic priorities are presented to the September session of the Executive Board, followed by a review of the detailed budget document by the Audit Committee in November, and final submission to the Board in December.

4. This present document lays out IFAD's priorities for 2006 in order to deliver on the programme of work. IFAD will aim to deliver, subject to availability of resources, a programme of work in the amount of USD 550 million and consisting of 35-39 projects (as compared with 28 in 2005). This represents an increase in dollar terms of 10% over the budget approved for 2005. The increase in the number of projects, approximately 32% (37 projects) above the 2005 level, is indicative and may change subject to the outcome of the review of implementation of the performance-based allocation system. In 2005 as well, the Fund prepared and presented to the Executive Board (in April) four projects in the context of IFAD's response to the tsunami, bringing to 32 the total number of projects for 2005; as a result, the actual increase in number of projects for 2006 is only 15% rather than 32%.

5. For eleven years, IFAD has maintained negative or zero real growth in its administrative budget and Programme Development Financing Facility (PDFF), within which it has supported various new initiatives as well as the programme of work. In 2006, in response to the significantly larger programme of work proposed and the recognition that various functions and initiatives undertaken by the Fund require adequate funding in order to be effective, the administrative budget (including one-time costs) is being proposed at USD 65 million, for a nominal increase of 13.7%. This represents a price increase of 4% and an increase in real terms of approximately 9.7%, attributable partly to the significantly higher programme of work (5%) and partly to the strengthening of the Strategic Planning and Budget, Communications and Policy Divisions, an enlarged training programme, and implementation of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (4.7%).

6. The PDFF budget for 2006, proposed at USD 38 million, reflects a nominal increase of 28%. This increase is primarily in direct response to the significant growth in the programme of work in terms of the number of projects, but also reflects the expected growth in the size of the ongoing portfolio and the different mix of cooperating institutions in the portfolio compared with 2005.

7. The Audit Committee, during its review of the 2005 programme of work and budget, requested that management undertake a comparison of IFAD's budget process and policies with those of other international financial institutions (IFIs). This comparison exercise was carried out and the findings

were presented to the Audit Committee at an informal seminar; the related documents are referred to rather than reproduced within this document. On the whole, IFAD's budget process is similar to that of other IFIs, although the review revealed areas where IFAD's process could be streamlined. In the areas of zero real growth and carry-forwards, IFAD has adopted the same approach as other IFIs. Also, although other IFIs do not have a specific line named "one-time costs", they have similar one-off items that are below the line of the normal budget.

8. Risk management has been a focus for both profit and non-profit organizations in recent years and IFAD has introduced risk management into the 2006 budget exercise. The Fund recognizes the importance of developing a risk management strategy, and appreciates the need to mainstream risk management into normal operations. Mitigating actions have been formulated for the risks identified during the budget exercise, and senior management will periodically monitor progress on these actions throughout 2006.

PART I – STRATEGIC PRIORITIES AND PROGRAMME OF WORK OF IFAD FOR 2006**A. IFAD’s Strategic Priorities for 2006****External Context**

1. In September 2000, world leaders endorsed the Millennium Development Goals (MDGs), the first of which is to reduce the proportion of people living in extreme poverty by half by 2015. The prime responsibility for reaching the MDGs rests with the governments of developing countries, but responsibility also lies with developed countries to support the actions of developing countries as agreed at the International Conference on Financing for Development held in Monterrey, Mexico, in March 2002. After a period of sluggish growth in official development assistance (ODA), this common objective is now being pursued by increased commitment of ODA¹ and greater political will. There is thus a growing hope that even countries that have so far failed in reducing poverty and have been off track in attaining the other MDGs (most of which are in Africa) could achieve the goals by 2015.

2. However, for this to happen, poverty reduction efforts must be specific, effective and focus on the poor and their livelihoods. Most of the world’s poor live in rural areas and depend on the agricultural sector for their income and food security. The recently published Report of the UN Millennium Project (2005) argues that a transformation in the development of rural areas and rural poor people is a must for achieving the MDGs. It lists “Rural development: increasing food output and incomes” as the *first* of its main investment and policy clusters.² IFAD, mandated to fight poverty and hunger, dedicates its efforts and resources to reducing poverty in the rural areas of the developing world. IFAD-funded programmes currently reach an estimated 100 million rural poor people.

3. The commitment to increasing the overall level of ODA has created prospects for attaining the MDGs by investing more resources in the rural and the agricultural sectors, thus reversing the downward trend of the past decade. This is being complemented by pledges of regional initiatives – such as the New Partnership for Africa’s Development (NEPAD) – to raise the investment of national resources in agriculture and rural development, greater efforts for country leadership and ownership of poverty reduction processes, common and agreed articulation of national poverty reduction strategies, and the coordination and harmonization of assistance. These are potentially powerful factors in accelerating rural poverty reduction. However, their potential can only be *realized* if national and international efforts are moulded by a better grasp of what it takes to create sustainable economic opportunities among the rural poor.

4. The challenge today is to go beyond recognizing that poverty reduction strategies must reflect specific national conditions to ensuring that those strategies reflect the concrete and particular opportunities of the poor people themselves. IFAD has an important role to play in this: as a source of experience in dealing with micro-level rural poverty reduction issues (and the upstream issues that have a crucial bearing on local success); as an innovator in responding to the new challenges arising from globalization and structural economic change; as a partner in the policy dialogue and harmonization processes that are the avenues for scaling up successful experience; as a mobilizer of finance in a sector suffering severe underinvestment; and as an advocate for resources and a supportive framework at the global level.

¹ In 2004, the level of ODA reached USD 78.6 billion, which is about 0.25% of the gross national income of developed countries. If existing commitments for further increases in ODA are realized, total ODA will pass the USD 100 billion mark by 2010.

² *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, pp. 63-72.

5. The objectives that IFAD pursues and the activities it supports have special relevance to the first MDG and its targets.³ Nonetheless, all the MDGs bear upon the capacity of rural poor people to reduce their poverty and hunger, and all are relevant to IFAD. IFAD programmes give high priority to gender equity and are closely involved in mitigating the effects of the HIV/AIDS pandemic. Furthermore, IFAD supports environmental sustainability not only through its own operations but also through its hosting of the Global Mechanism of the Convention to Combat Desertification and its role as an executing agency of the Global Environment Facility. IFAD's Strategic Framework directs it to focus on activities that promise rural poor people greater access to assets (e.g. land and water), technology, finance and markets. Through partnerships, such as that with the Belgian Survival Fund, IFAD is also engaged in the issues of child mortality, maternal health and adult education.

6. Country leadership and ownership of the poverty reduction effort are essential, and harmonization and coordination efforts must take this as their first principle (as expressed in the Paris Declaration on Aid Effectiveness). To make a difference, country leadership must be able to draw upon country capacity to identify and respond to key livelihood issues. It is on strengthening this capacity – among farmers, in government, in civil society and in the private sector – that IFAD focuses its efforts.

7. IFAD is not setting new goals or targets. The challenge for IFAD, as in the past, is to fight poverty and hunger through increased productivity, production and incomes. Many elements of the aid effectiveness agenda have long been central to IFAD's operational practices: country leadership and ownership, alignment with national strategies, execution by governments and local NGOs, on-budget financing, and support for national procedures and service capacities. The challenge for IFAD is to harness the new environment that made the MDG consensus possible so as to increase significantly both the scale and the quality of its contribution to the overall effort to eradicate poverty. It has to help catalyse the broader effort – in which partnership development, innovation, policy dialogue and advocacy are key factors. Today, the external environment is brimming with opportunity. IFAD's task is to organize to exploit it fully.

Internal Context

8. During 2005, in addition to delivering on the programme of work, assisting tsunami-affected countries with special initiatives, and continuing work on the tasks set by the Consultation on the Sixth Replenishment of IFAD's Resources, IFAD has been concentrating on the Seventh Replenishment Consultation and management's response to the Independent External Evaluation (IEE) of IFAD. The proposed changes in the way IFAD goes about its work can be found in the Way Forward paper (document REPL VII/2/R.2) and in management's response to the IEE (as set forth in the Report on the Independent External Evaluation of IFAD, document EB 2005/84/R.2).

9. The Way Forward paper broadly delineates the direction that IFAD proposes to take during the Seventh Replenishment period. Following further discussions, the main points and conclusions from the deliberations will be captured in the Consultation's report. IFAD will focus its resources where its value-added can be greatest, and will be guided by the achievement of development results and impact. It will develop a new strategic framework and a new three-year medium-term planning mechanism translating this framework into concrete objectives and actions with monitorable indicators of implementation and performance. It will articulate partnership and learning objectives, which will be embedded in all of its activities. The new strategic framework and three-year medium-term plan will be presented to the Executive Board for its consideration.

³ The first goal, "eradicate extreme hunger and poverty" has two specific targets: (i) halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day; and (ii) halve, between 1990 and 2015, the proportion of people who suffer from hunger.

10. IFAD management's response to the IEE identifies building blocks for a comprehensive plan of action to further strengthen the institution. The six building blocks are: clarify IFAD's role and focus; develop a new operating model; strengthen knowledge management and leverage external institutional skills; strengthen the culture of results and performance; enhance leadership for development effectiveness; and manage change.

11. An action plan to implement management's response to the IEE is to be presented to the Executive Board in September 2005. At the conclusion of the Seventh Replenishment consultations, this action plan will be merged with the replenishment action plan to present an overall and concise way forward for the Fund. The costing of this overall action plan will include both investment costs and recurring costs, which will be incorporated in the Fund's normal budgetary process.

12. The 2006 programme of work and supporting budgets are being prepared keeping in mind IFAD's current Strategic Framework objectives⁴ and institutional priorities (IPs). Several activities undertaken during the current Strategic Framework period span into the future and will be also addressed in the action plan for the coming years. The tasks from the Sixth Replenishment will continue into 2006 and, to the extent that they relate to the delivery of the 2006 programme of work and the institutional priorities, they will be addressed in this paper.

13. Of IFAD's eight IPs, the first three – manage loan- and grant-funded country programme for results (IP1), manage grant-funded research and capacity-building programmes for results (IP2) and promote inclusive and enabling poverty reduction policies (IP3) – will be the main focus for 2006 with respect to the programme of work, although the remaining five will also receive attention (see section C for details).

14. Supplementary funds will be used not only to enhance the programme of work but also to support institutional initiatives. For example, the Institutional Strengthening Project will support IFAD in developing a policy for poverty reduction strategy papers (PRSPs), corporate planning tools, a policy on knowledge management and enhancing staff capacity and performance.

B. IFAD's Achievements in 2004 and 2005

15. In 2004, IFAD made significant progress on multiple fronts. Foremost is the continued increase in the volume of loans and grants under the programme of work, which in 2004 reached USD 490.35 million, an increase of USD 65.65 million over 2003, and of USD 27.85 million over the approved level for 2004. The fact that IFAD was able not only to meet but to exceed the 2004 target volume of the programme of work is a source of great satisfaction for the organization as a whole.

16. Major strides were also made in furthering the institutional change and effectiveness agenda mandated by the Sixth Replenishment. Several key initiatives were either launched or completed in 2004; the most salient ones are summarized below:

- the Results and Impact Management System (RIMS) to better measure, report and assess IFAD's operational impact;
- a performance-based allocation system (PBAS), first applied in the 2005 lending programme;

⁴ The strategic framework's objectives are to: (i) strengthen the capacity of the rural poor and their organizations; (ii) improve equitable access to productive natural resources and technologies; and (iii) increase access by the poor to financial services and markets.

- the Field Presence Pilot Programme to test options for enhancing IFAD's field presence and in-country capacity;
- a revised policy on grants that increases the relative proportion of IFAD's grant financing window and enhances programmatic effectiveness in promoting opportunities for strategic partnerships and innovation;
- the Initiative for Mainstreaming Innovation to promote IFAD's capacity to innovate, learn and replicate good practices;
- a strategy to enhance the development of and engagement with the private sector;
- an updated Human Resources Policy to strengthen IFAD's performance management framework;
- the development and introduction of an enhanced performance management system for staff and managers, emphasizing performance and results;
- participation in the International Civil Service Commission pay-for-performance pilot programme;
- promotions as a means to promote professional growth of IFAD's human resources and duly recognize the assumption of new or changing functions as they evolve;
- the implementation of the Asset Liability Management Framework to optimize the use of resources by maximizing loan and grant approvals while minimizing financial risks;
- the establishment of a policy forum for promoting in-depth dialogue within IFAD on key development issues;
- the development of more streamlined event and communication plans for many of the priority international and regional events considered essential for partnership-building with other United Nations agencies, IFIs, civil society and the communities of the rural poor;
- the enhancement of the Governing Council meetings to serve as the forum for exchanging informal views and sharing experiences among IFAD staff, Governors and other IFAD stakeholders;
- advocacy work on IFAD's collaboration with indigenous and tribal peoples, especially in Asia and Latin America; and
- the Exposure and Dialogue Programme through which some Executive Board members and IFAD staff spent two to three days in villages, living with the rural poor themselves.

17. Considerable advances were made within the Strategic Change Programme (SCP) in 2004, bringing it to substantial level of implementation of most of the first-phase modules. Notably, implementation of the budgeting, cash management, supplementary funds and asset management modules was completed, and all went live in 2004. Major effort was invested in the payroll and commitment control systems and in the decentralization of budget management; these went live in January 2005.

18. The decentralization of budget management constitutes one of the main outputs of the SCP, bringing about a reconfiguration of institutional roles and responsibilities in the sphere of budgetary management. By placing the decision-making authority, responsibility and accountability for budget management at the budget-holder level (i.e. divisional directors), the interface and alignment between corporate strategy and operations will be strengthened. This development is expected to lead to enhanced corporate performance and resource management.

19. Accordingly, as from 2005 IFAD is able to utilize the full suite of PeopleSoft modules in a comprehensive way. This is contributing to the introduction of process improvements, increased transparency and control, and the performance of more value-added functions.

20. Finally, engagement in the IEE process was a major endeavour in 2004. Staff participated in this initiative actively, displaying their strong sense of commitment to the institution. In addition, the IEE has offered a great opportunity for profound reflection on IFAD's achievements and on how to strengthen further its development effectiveness in the future.

C. Institutional Priorities for 2006

21. Eight institutional priorities support the strategic objectives within IFAD's Strategic Framework 2002-2006. Each is discussed below in the context of how it will be approached in 2006 and how it will incorporate IEE recommendations, to the extent that they relate to delivery of the programme of work.

IP1 – Manage Loan- and Grant-Funded Country Programmes for Results

22. The proposed 2006 programme of work (loans and grants) will respond to IFAD's mandate at the country level with programmes that will include, as articulated in three interrelated building blocks: IFAD's Strategic Framework and institutional priorities, its regional strategies and the country strategic priorities. New initiatives will be promoted in the context of recently approved policy frameworks (e.g. for the private sector and for sector-wide approaches for agriculture and rural development). Overall, interventions will be guided by the need to reduce poverty and effectively contribute to achievement of the MDGs. To achieve this, a core objective of IFAD's 2006 programme of work will be to enhance development effectiveness and demonstrate results.

23. This objective will be supported by making country strategic opportunities papers (COSOPs) more results-oriented and rooted in the strategic directions of the development agenda as defined in Member States' poverty reduction strategy papers, national development plans and other relevant poverty reduction plans. In parallel, the PBAS will continue to allocate resources to country programmes on the basis both of needs and of performance.

24. Country grants will have strong linkages with loan programmes. This will enhance impact; enable a response to a variety of needs in the regions, including policy dialogue and advocacy, capacity-building, local capacity development for progress monitoring and impact, and knowledge management on priority themes; and address urgent post-conflict and natural disaster needs. As the country programme approach evolves, country grants will support the interface between IFAD and in-country sector-wide and/or poverty reduction processes and will play an important role in the formulation of strong country programmes for poverty reduction.

25. With regard to the project portfolio, the overall thrust of the 2006 programme will be to maintain a strong emphasis on enhancing impact through measures aimed at improving project implementation performance and results. These include: (i) increased attention to impact-oriented implementation activities, including operationalization of the RIMS; (ii) an enhanced portfolio review exercise to monitor performance of the existing portfolio and draw lessons for future operations; (iii) the strengthening of monitoring and evaluation capacity; (iv) organization of regional and subregional implementation workshops with action plans to improve programme performance and impact; (v) more targeted and strategic use of implementation support; and (vi) more effective supervision arrangements and more focused follow-up actions.

26. Reflecting the emphasis on quality assurance and results, the Fund will implement recommendations from recent programme and country portfolio evaluations and report on these annually to the Board. The Fund will also strengthen its monitoring of financial issues in this area, including those related to debt servicing, project audit report compliance, and the effectiveness, completion and closing of loans and grants.

IP2 – Manage Grant-Funded Research and Capacity-Building Programmes for Results

27. The grant programme has two strategic objectives: (i) promoting pro-poor research on innovative community-based approaches and technological options to enhance field-level impact; and (ii) building pro-poor capacities of partner institutions, including community-based organizations and NGOs. Pro-poor agricultural research will remain a significant component, building on the success of past such investments by IFAD. Grants will include support through international centres of excellence. Projects will typically involve a number of national agricultural research system partners contributing to and benefiting from regional collaborative research and development networking. Under objective (i), support will be extended to regional and thematic initiatives (for instance, relating to rural finance, UN-Water⁵ and HIV/AIDS) with clearly identified impact on the rural poor.

28. All global and regional grants are linked to the corporate or regional strategies and are designed to generate pro-poor outputs of direct relevance to the future loan portfolio. Regional grant proposals currently being developed focus on: (i) networking-related initiatives; (ii) policy at the regional and national level; (iii) enhancing national and regional capacity in market-linkage development and rural financial services; and (iv) training and capacity-building activities.

29. As in the case of the loan programme, the Fund will strengthen its monitoring of financial issues in the area of grant-funded programmes, including those related to debt servicing, project audit report compliance, and the effectiveness, completion and closing of grants.

IP3 – Promote Inclusive and Enabling Poverty Reduction Policies at the Local, National, Regional and Global Levels

30. As the IEE underlined, IFAD needs to enhance its policy role in a selective and strategic way. Such a role must be based on its experience derived from, or required for, project success at the local, national and global level.

31. At the national level, poverty reduction policies will be promoted through contributing to the development/refinement of country PRSPs – and, where applicable, their translation into sector strategies – to enhance their rural poverty focus. Similarly, COSOPs will help promote an inclusive pro-poor policy framework. COSOPs will provide major opportunities to engage in policy dialogue in those areas most relevant to shaping the Fund's projects and programmes. The PBAS, through sector reviews, will be used as an entry point for identifying key policy areas in need of reform/improvement and for initiating an informed policy dialogue with the government. In addition, the field presence pilot initiatives can help in enhancing the rural dimension of poverty reduction strategies.

32. At the regional and global level, IFAD will help identify policy constraints, again derived from its project experience; selectively support policy initiatives for the benefit of the rural poor; and aim at becoming a more vocal supporter of the rural poor in partnership with others. Engagement with these processes is becoming critical as regional and global policy processes have a significant impact on the prospects of the rural poor. During 2006, several regional strategies will be reviewed and updated.

IP4 – Manage Knowledge Relevant to Effective Rural Poverty Reduction

33. While the generation of knowledge and information, the sharing of experience and information, and the communication of information and knowledge are implicit elements of loan and grant

⁵ Inter-agency mechanism for follow-up of all water-related decisions of the World Summit on Sustainable Development and the MDGs concerning water.

programmes and an essential basis for the replication and scaling up of best practices, the IEE has identified knowledge management as an area to be addressed. Many of the innovations made in projects have not been sufficiently evaluated and analysed because of the lack or weakness of institutional learning mechanisms, both at the project level and at the organization level as a whole. According to the IEE, learning and knowledge are critical to the success of the Fund. Although learning and the sharing of knowledge are expected to be fundamental functions of the new operating model, work on knowledge management has already been initiated in 2005 and will continue into 2006. IFAD's knowledge management framework will be completed so that it can be integrated into the new operating model.

34. It is also expected that the various initiatives under the Field Presence Pilot Programme will facilitate knowledge-generation and dissemination among regional stakeholders and between the field and headquarters, enabling IFAD to replicate successful experiences and allowing other institutions to become familiar with IFAD's track record and enable the scaling up of innovative approaches. The effective use of learning notes will serve as a medium for documenting lessons and experiences.

IP5 – Mobilize and Manage Financial Resources for Rural Poverty Reduction

35. The Fund will focus attention on successfully completing the Seventh Replenishment Consultation and ensuring payments on pledges. This requires continued engagement with donor countries in order to manage relations. Furthermore, the Fund will seek donors' support for access to the Heavily Indebted Poor Countries (HIPC) Trust Fund and secure external contributions to offset IFAD'S HIPC-related costs. The Fund will continue to mobilize supplementary funds to cover additional programmatic activities that are not financed by core resources.

36. Dialogue with IFIs and bilateral donors will be maintained to secure cofinancing for projects/grants under development as well as supplementary funds for specific programmes and initiatives. Resources will also be mobilized under specific agreements (e.g. the Multi-Donor Programme to Eradicate Rural Poverty in Latin America and the Caribbean).

IP6 – Building Strategic Partnerships with other Actors in Rural Poverty Reduction

37. Partnership-building cuts across all IFAD's institutional priorities and is pursued through different avenues. Many of IFAD's current partnerships and working alliances have been forged in the context of projects/programmes and grants to leverage funds and achieve the greatest impact. At the country level, and in the context of the emerging concept of country programmes, IFAD will pursue the development of strategic in-country partnerships involving other multilateral and bilateral donors, private-sector agencies and local civil society organizations. Closer collaboration with some bilateral agencies is expected to result in increased mobilization of cofinancing for development programmes, especially in support of fragile states emerging from conflicts; transfer of appropriate agricultural technologies; land access and management; natural resource conservation and management; and mitigation of the spreading impact of the HIV/AIDS pandemic.

38. It is further expected that the various in-country resource persons and field presence initiatives will continue to facilitate and contribute to the development of strategic partnerships for enhanced poverty reduction. In addition, IFAD will join others to support established frameworks for the coordination of poverty reduction programmes/activities. Collaboration will also continue with the specialized units based in Rome: the Belgian Survival Fund, the International Land Coalition and the Global Mechanism. Furthermore, IFAD has recently become an executing agency for the Global Environment Facility. IFAD will attempt to mainstream indigenous peoples' issues into the PRSP process through a multi-stakeholder initiative supported by IFAD, the World Bank, the Food and

Agriculture Organization of the United Nations (FAO), the German Agency for Technical Cooperation and the World Food Programme to sharpen the rural focus of PRSPs. IFAD has already followed up with other stakeholders on the economic empowerment of rural poor women in the context of discussions at the Beijing+10 implementation review and is strengthening gender mainstreaming in all its operations.

39. In April 2005, the Executive Board adopted the IFAD Private-Sector Development and Partnership Strategy, focused on enhancing private-sector growth to benefit the rural poor at the country and regional level. Within the framework of the new strategy, a number of partnership opportunities will be explored. A key aim of the private-sector strategy will be to engage in corporate-level partnerships with private-sector actors that can contribute essential resources and advocacy on rural development issues. This is a significant opportunity to expand and diversify the resources available for rural poverty reduction while also enhancing IFAD's interaction with the private sector, which the UN system has recognized as a key partner for attainment of the MDGs.

IP7 – Develop Innovative Approaches to Rural Poverty Reduction

40. In 2006, IFAD will continue its support of ongoing innovation initiatives and will foster innovation through newly identified activities that will boost IFAD's poverty reduction efforts. In May 2005, the Shanghai Conference on Scaling Up Poverty Reduction focused on the need for innovation and enhanced modalities for the replication and scaling up of poverty reduction efforts.

41. Recognizing the importance of innovation for IFAD, the Fund launched the Initiative for Mainstreaming Innovation (IMI) in 2005 with complementary funding from the Department for International Development (DFID) of the United Kingdom of Great Britain and Northern Ireland, with the purpose of enhancing IFAD's capacity to promote innovations that will have a positive impact on rural poverty. The main phase of the IMI began activities in 2005 and follows three mutually supportive lines of activity: (i) strengthening of innovation in IFAD's core activities; (ii) learning and sharing of lessons on innovation; and (iii) development of organizational innovation culture, capability and competence. In the context of the country programme approach, IFAD contemplates that the focus on innovation will be sharpened and more clearly reflected in the country programme in order to increase potential for replication and scaling up.

42. The IMI will continue operation in 2006 with an institutional phase, strengthening IFAD's capacity to promote innovations, institutionalizing learning and developing operational instruments, as well as promoting, sharing and communicating innovations.

43. The major outcomes expected for 2006 include continued implementation of two financing facilities (IMI bidding for innovative proposals and a rapid funding facility); implementing the innovation communication pilot plan and human resources plan; and holding a regional consultation on innovation needs and opportunities, and a panel on innovation during the Governing Council session in 2006.

IP8 – Manage Institutional Governance and Working Environment for Enhanced Effectiveness

44. The introduction of the new Legal Procedures Framework will require the Fund to have a focal point for finalizing all new policies and procedures and ensuring their consistency, comprehensiveness and implementability. In addition, the implementation of the new IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, the development of new practices and procedures thereunder and the continuing workload of the Oversight Committee will continue to be areas of major focus. More specific attention to risk management has been introduced through the

incorporation of risk assessment into the budget process, and senior management and managers will follow up with actions to mitigate the risks identified. Due to the recent focus on oversight and risk, there is a need to bring back internal audit coverage to adequate levels, especially given the decentralization of some controls.

45. Many years of zero-real-growth budgets have put severe staffing constraints on IFAD to deliver increasing core programmes and new strategic priority initiatives (e.g. knowledge management, policy dialogue, partnership-building and training) at the optimum level. As a result of this and in view of a larger programme of work, IFAD is proposing to increase the number of staff in the context of its administrative budget and the PDFF. The effect of this will be to increase administrative costs to accommodate this staff.

46. The IEE acknowledged that the profile of the country programme manager (CPM) is changing and new competencies are required; therefore, specific training activities will need to be provided and will be crucial to facilitating the change process. The augmented training budget will address this as well as improve the quality of management and leadership. The pay-for-performance pilot testing will continue while the new Human Resources Policy and procedures are put in place.

47. The Fund will focus on formulating and implementing corporate planning processes and tools; increasing the effectiveness and efficiency of financial and loan administration services; and developing dynamic financial reporting and strategic analysis mechanisms for management, borrowers and stakeholders. It will work towards completing a framework for introducing a results-based management system for the whole institution. Existing quality control and assurance approaches will be reviewed and strengthened. In this context, particular attention will be paid to strengthening loan portfolio-related technical advisory services and other technical backstopping services during the design and implementation phases of the project cycle. This will be done on several fronts, including the project scope. The overall aim will be to enhance the impact of IFAD's loan and grant programme and improve selectivity and effectiveness through the measuring of results and impact.

48. In addition, the Fund will focus on fulfilling the commitments assumed under the Sixth Replenishment in relation to asset liability management (ALM). The ALM model will be used to monitor the Fund's overall financial position within the context of the revised investment policy with emphasis on meeting the targeted 3.5% rate of return through socially responsible investing.

D. Departmental Overview

External Affairs Department

49. In the last ten years, the format of the Governing Council has expanded and, although costs have increased, this change in format represents value-added. The External Affairs Department (EAD) will continue to coordinate Governing Council planning to ensure that it is cost-effective and that the Council becomes a valuable and innovative forum for dialogue on development issues of concern to the rural poor and IFAD's Member States. The Conference Services Unit of the Office of the Secretary of IFAD will also be strengthened to take on the heavier Executive Board agenda; the expected increase in the programme of work; and the more frequent meetings of the Audit and Evaluation Committees, informal Executive Board sessions and meetings of Convenors and Friends. Table 1 provides some details on the increased servicing requirements in relation to IFAD's governing bodies.

Table 1: Increase in Frequency and Duration of IFAD Governing Body Meetings

| | 2004 | 2005 |
|------------------------|---------------------------------|---------------------------------|
| Executive Board | 3 sessions x 2 days = 6 days | 3 sessions x 3 days = 9 days |
| List Meetings | 8 | 25 |
| Audit Committee | 6 | 6 |
| Evaluation Committee | 5 | 5 |
| IEE Steering Committee | 2 | 2 |
| Convenors and Friends | 3 | 4 |
| Sub-Committee meetings | 5 | 2 |

50. Since 2001, EAD has made progress in consolidating the new structure of the Communications Division, filling gaps in expertise and service and working out new relationships with the rest of IFAD through the provision of essential communication services, such as planning, writing, editing, design, production evaluation and distribution. The funding requirements for setting up a truly effective Communications Division are large. However, within the funds to be made available in 2006, EAD will try to consolidate the gains it has made to ensure a strong foundation for the Communications Division so that it may continue to provide the current level of services without resorting to ad hoc measures, and also improve its level of service through gains in efficiency.

51. The creation of the Policy Division represents the first step towards building a well-organized and coordinated policy function in IFAD. The Policy Forum established in 2004 has proved an effective mechanism in providing a space for initial debate and cross-fertilization on policy questions. A lot more is needed, however, to strengthen IFAD's capacity for policy and advocacy engagement. The Policy Division will address this need in a more systematic way by: (i) supporting processes through which the Fund's experience and knowledge derived from its projects are reflected in policies and their implementation; (ii) facilitating and participating selectively and strategically in regional policy dialogue and advocacy activities around key rural poverty issues; and (iii) engaging – strategically and selectively at the global level – in dialogue involving both advocacy and learning/sharing with others. Growing participation in coordination and harmonization processes will similarly require policy positions on the critical issues faced by rural poor people. Partnerships with organizations of the rural poor and with indigenous peoples' movements will need to be further strengthened and mainstreamed. Finally, as recommended by the IEE the Fund's own capacity to engage strategically and selectively in policy dialogue at the local, national, regional and global levels will require stronger policy articulation and partnership development.

Finance and Administration Department

52. In addition to the existing level of administrative and financial support, the Finance and Administration Department (FAD) will support the rest of IFAD by providing services for the staff required to deliver the increased programme of work. An increase in staff means higher recruitment costs, additional office space and additional computer equipment. As the programme of work is growing not only in terms of dollars but also in its number of loans and grants, the Loans and Grants Administration Unit of the Office of the Controller will be strengthened. FAD will continue to focus on supervising the remodelling of the headquarters building and preparing for the move that will bring all IFAD departments under one roof.

53. In its role of recording, monitoring and reporting financial results, managing the investment portfolio and linking budgets and results to the Strategic Framework and human resource management, FAD has the following priorities for 2006:

- continuation of the human resource reform agenda;
- completion of a framework for introducing a corporate results-based management system that combines existing initiatives (such as the RIMS) with activity-based budgeting;
- further incorporation of risk management into budget and planning processes;
- further development of corporate reporting;
- furthering the work in the ALM area; and
- further enhancement of the systems implemented under the first phase of the SCP.

Programme Management Department

54. The programme of work of the Programme Management Department (PMD) presents a number of interrelated, mutually supportive sets of issues that will form the basis for the department's work in 2006. First among these is an increase in the number of lending and grant operations to be submitted to the Executive Board in 2006, which has implications for both design and implementation. This increase addresses the need to build up the pipeline of loans and grants over future years to respond in a timely manner to the expected increases in commitment levels and to ensure the strategic management of that pipeline. In addition, the current PBAS parameters have led, in some cases, to a greater number of smaller projects, in turn implying further increases in the project portfolio and ultimately more demands on staff time.

55. Second, improved quality assurance needs to be embedded in PMD divisions through greater emphasis on this key aspect, for instance, through involvement in the evolving field presence initiative; the development of "self-learning" initiatives both externally at the country and project level and internally at the departmental and divisional level; consistently responding to evaluation recommendations; and, above all, maintaining the portfolio focus on results and impact, and on subsequent reporting.

56. Third, there is an ongoing need to strengthen delivery on key institutional priorities (such as knowledge management and partnership development) and on elements stemming from the Sixth Replenishment, including the RIMS and PBAS. The costs of these elements are incorporated into the 2006 programme of work and budget, and they remain fundamental building blocks of PMD's work programme. For example, pipeline development, learning and experience sharing have all meant an increase in efforts to work with other development agencies both at the bilateral and at the multilateral level. This has taken on added significance following the Paris Declaration on Aid Effectiveness in February 2005 with an emphasis on harmonization and the need to further align approaches and enhance development effectiveness while ensuring that IFAD's specific role and focus are maintained.

E. The 2006 Programme of Work

57. Following the upward trend initiated in 2002 and subject to the availability of resources, the 2006 programme of work is projected at USD 550 million, which represents a 10% increase over the 2005 level in dollar terms. As shown in Table 2 below, 90% of the programme of work will be IFAD's lending programme (USD 495 million), while the remaining 10% will be IFAD's grant programme (USD 55 million).⁶

Table 2: Proposed 2006 Programme of Work

| Fund Type | 2005 (USD million) | 2005 (USD million) | % of total | 2006 (USD million) | 2006 (USD million) | % of total | % increase over 2005 |
|---|--------------------------|--------------------------|---------------|--------------------------|--------------------------|---------------|----------------------------|
| Loans | 450 | | 90 | 495 | | 90 | 10 |
| Grants | 50 | | 10 | 55 | | 10 | 10 |
| Global/regional | | 25 | | | 27 | | |
| Country-specific | | 11 | | | 11 | | |
| Ex-grant items transferred to PDFF (country) | | 13 | | | 17 | | |
| Total | 500 | 50 | 100 | 550 | 55 | 100 | |

Lending Programme

58. The 2006 lending programme is proposed at the level of USD 495.0 million (or SDR 341.9 million).⁷ It is currently projected that between 35 and 39 projects will be required to meet the respective regional lending allocations. The increased lending programme and the operationalization of the PBAS have the combined effect of an increased number of projects for 2006. There is also a larger number of small country allocations, which will call for the preparation of additional projects. It should be noted that this range is indicative and may be subject to change depending on the outcome of the review of PBAS implementation.

59. The PBAS has established country allocations for eligible borrowers as approved by the Executive Board in December 2004 and disclosed by IFAD through its web site in January 2005. The distribution of IFAD's committable resources among a large number of potential borrowers has meant that, in several instances, allocations are relatively small, even over the three-year allocation period. At the other end of the scale, some countries with large populations receive large allocations; however, while some of these borrowers can utilize all of their allocation, not all countries necessarily have the absorptive capacity to do so and therefore request loans of smaller amounts. In order to meet indicative lending programmes, regional programmes currently tend to have one or two large borrowers and the remaining borrowers take medium to small loan amounts, in accordance with PBAS allocations. Changes in the PBAS allocation formula to be considered by the Executive Board should address these concerns to some extent and have been anticipated by the range of planned projects in the 2006 lending programme. Future lending programmes will still contain some low-volume loans owing to small (or in some cases "minimum") allocations and the demand by eligible borrowing countries to avail themselves of IFAD resources. These issues will continue to be monitored in the context of the PBAS and its sustained improvement.

60. The increase in the number of projects from 28 in 2005 to 35-39 in 2006 relates to the projects within the approved programme of work. However, in 2005, the Fund also prepared and presented to the Board (in April) four projects in the context of IFAD's response to the tsunami (two in Sri Lanka, one in Maldives and one in India), and one proposal following detailed development work (in

⁶ Inclusive of ex-grant items transferred to PDFF (country).

⁷ Calculated at the 7 July 2005 exchange rate of SDR 1.44784/USD 1.

Indonesia) possibly for subsequent presentation. This brings the total number of projects for 2005 to 33, which reduces the increase in number of projects for 2006 to 15% (37 projects) rather than 32%. For the portion not funded in 2005, IFAD expects to mobilize additional resources or use loan allocations under the programme of work and budget for 2006. Management will keep the Board informed of the status of these resource mobilization efforts.

61. The tentative programme of work by region is summarized in Table 3, but, as noted above, this is indicative. There may be changes in the final number of projects depending on the pipeline status, region-specific situations, discussions with governments and progress with the PBAS.

Table 3: 2006 Indicative Lending Programme by Region

| | Western and Central Africa | Eastern and Southern Africa | Asia and the Pacific | Latin America and the Caribbean | Near East and North Africa | Total |
|--------------------------------------|---|---|--|---|--|-------|
| Recommended allocation (USD million) | 91 | 91 | 153 | 84 | 75 | 495 |
| % of total programme | 18 | 18 | 31 | 17 | 15 | 100 |
| Number of projects | | | | | | 37 |
| Indicative country list | <ul style="list-style-type: none"> ▪ Burkina Faso ▪ Cameroon ▪ Congo ▪ Gambia ▪ Guinea ▪ Mauritania ▪ Niger ▪ Nigeria ▪ Sierra Leone | <ul style="list-style-type: none"> ▪ Burundi ▪ Ethiopia ▪ Kenya ▪ Madagascar ▪ Uganda ▪ United Republic of Tanzania | <ul style="list-style-type: none"> ▪ Bangladesh ▪ Cambodia ▪ China ▪ Democratic People's Republic of Korea ▪ Indonesia ▪ Maldives ▪ Pakistan ▪ Papua New Guinea ▪ Sri Lanka ▪ Viet Nam | <ul style="list-style-type: none"> ▪ Argentina ▪ Bolivia ▪ Ecuador ▪ Haiti ▪ Nicaragua ▪ Peru | <ul style="list-style-type: none"> ▪ Bosnia and Herzegovina ▪ Egypt ▪ Jordan ▪ Sudan ▪ Syrian Arab Republic ▪ Turkey | |
| Reserve | <ul style="list-style-type: none"> ▪ Gabon ▪ Guinea-Bissau ▪ Mali ▪ Senegal | <ul style="list-style-type: none"> ▪ Comoros ▪ Eritrea ▪ Malawi ▪ Mauritius ▪ Uganda | <ul style="list-style-type: none"> ▪ Iran, Islamic Republic of ▪ Kyrgyzstan ▪ Tajikistan | <ul style="list-style-type: none"> ▪ Costa Rica ▪ Honduras ▪ Panama | <ul style="list-style-type: none"> ▪ Algeria ▪ Djibouti | |

62. The focus of interventions will be on the thematic areas stipulated in IFAD's Strategic Framework and its strategic objectives,⁸ and the regional strategies will be prepared within the framework of country strategies (COSOPs). Special attention will be paid to enhancing IFAD support to country-owned poverty reduction strategy processes or their equivalent. To this effect, an approach paper has been developed to guide IFAD's engagement along four main lines: progressive alignment of results-based COSOPs with PRSPs; capacity-building and knowledge networking on poverty reduction strategies; strategic alliance with partners that have potential to add value to IFAD's poverty reduction strategy-related work; and mainstreaming poverty reduction strategy alignment and harmonization requirements into IFAD business processes. In so doing, IFAD also expects to contribute to achieving the MDGs. In the context of IFAD's mandate, partnerships will be forged with IFIs and bilateral donors, which in some cases will translate into cofinancing arrangements. Where

⁸ SO1 – Strengthening the capacity of the rural poor and their organizations; SO2 – Improving equitable access to productive natural resources and technology; and SO3 – Increasing access to financial services and markets.

possible, efforts to mobilize counterpart resources from governments will continue, so as to expand the financial resources available for project implementation. Interventions will be prepared in the context of newly adopted IFAD policies (e.g. on the private sector and sector-wide approaches).

Grant Programme

63. In line with the overall increase in the programme of work, the 2006 grant programme is projected to increase 10% over the 2005 level, from USD 50 million to USD 55 million. As shown in Table 2, 50% of grant resources will be channelled through the window for grants at the global and regional levels, with the remaining 50% flowing through the country-specific grant window.^{9 10}

64. The Executive Board will review a report on implementation of IFAD's policy on grant financing at its September 2005 session. Apart from reporting on experience since the adoption of the new IFAD Policy for Grant Financing (in 2004), the report will seek to clarify and further refine some key definitions which, for instance, will facilitate determination of conformity with the grant policy. However, the broad strategic focus, objectives and purposes of the grant programme remain valid (see discussion in paragraphs 22-29) It is anticipated that the new implementation of the grant policy (starting in 2006) will also be informed by other IFAD operational policies currently under consideration, such as the debt sustainability initiative.

Programme Development Financing Facility

65. The level of the Programme Development Financing Facility (PDFF) proposed for 2006 is approximately USD 38 million, representing an increase of 28% over the approved level for 2005. The increase can be better understood when the two distinct parts of the PDFF are considered separately. PDFF requirements originate from two sources: Category A (for pipeline development) and Category B (for the ongoing project portfolio).

66. **PDFF Category A** (new projects) is driven by the first three institutional priorities. The development of new loans (IP1) is the principal cost driver; this involves, to a limited extent, policy work which, in the context of new loan development, specifically deals with COSOPs, new regional strategies and the PBAS rural sector performance review. The project cycle is itself increasingly built around in-country processes that rely more and more on participatory processes that take longer to reach the necessary conclusion.

67. The major driver of the increase in PDFF Category A is the number of projects planned in 2006. This not only includes loan projects but also the country-specific grants that have resulted from the revised grant policy. Loan projects being developed in 2006 include reserve projects (as noted in Table 3) and initial work being done on the 2007 pipeline. Reserve projects are needed to ensure that programme of work targets for any given year are met in the case of slippage or other eventualities with projects otherwise ready for Board presentation. With the envisaged higher lending programme for subsequent years, the pressure is already being felt in 2006 to begin identifying and outlining the basic features of new interventions. While cofinancing is still a feature of many IFAD projects, there has been a growing trend over the past ten years for such projects to be IFAD-initiated as opposed to emanating from the pipelines of other multilateral financial institutions. IFAD therefore absorbs more of the development costs.

68. The introduction of the PBAS has, as noted in paragraphs 60 and 61 above, also changed the composition and number of projects in the lending programme. Low or "minimum" level of country allocation under the PBAS will mean, for some projects, loans for small amounts. Such loans

⁹ Including ex-grant items transferred to PDFF (country).

¹⁰ See the IFAD Policy for Grant Financing (document EB 2003/80/R.5/Rev.1).

nevertheless require the same degree of preparation and appraisal work (including the participatory processes referred to above) that is involved in larger loan amounts. Furthermore, in order to meet the total programme of work in all regions, the total number of projects per region has had to increase as a result of the limits imposed by the current level of country allocations.

69. PDFF Category B (ongoing project portfolio) is driven largely by financial requirements for IP1 and IP2, the loan and grant programmes that account for 98% of the PDFF Category B needs. Of this amount, 60% (USD 10.7 million) is earmarked for cooperating institution charges and the remainder for staff costs and consultant support.

70. The 2006 increases are due to various factors:

- (a) the increase in the size of the expected 2006 portfolio in terms of full project equivalents compared with 2005 (cooperating institution charges account for the majority of these costs);
- (b) a different mix of cooperating institutions in the portfolio compared with 2005; and
- (c) increased follow-up and other implementation support measures for both loans and grants as a result of the larger portfolio and regional division follow-up on results management at the project level and impact reporting.

71. **Increase in the size of the expected 2006 portfolio in terms of full project equivalents compared with 2005.** This is explained by: (i) the upward trend in the number of approved projects for 2005; (ii) the approval of four/five additional tsunami-related projects; and (iii) the impact of project extensions.

72. As indicated in the Portfolio Performance Report submitted to the Executive Board in April 2005, the average time elapsed between approval and effectiveness in the Asia and the Pacific region is lower than for other regions (about seven to eight months). Therefore, it is expected that the tsunami projects will be effective in 2006. Furthermore, in light of the purpose of these projects, every effort is being made to ensure that they become effective without delay.

73. With regard to project extensions, the Board was informed at the April 2005 session¹¹ that 12 of the 16 projects being extended for the first time were extended following procedures adopted in January 1999 regarding restated implementation periods. Loan amounts and project activities remain unchanged but the project implementation period is formally established as from the date of loan effectiveness. This facilitates operational and budget planning at the project level and more accurate monitoring of disbursement activities and trends.

74. **Different mix of cooperating institutions in the portfolio compared with 2005.** In response to the IEE, the Fund is striving to improve supervision. Consequently, an increasing number of projects are being entrusted to the United Nations Office for Project Services, the World Bank and the Andean Development Corporation. The administration/supervision costs of these cooperating institutions, particularly the World Bank, are higher than those of other cooperating institutions, which has an impact on the costs of the overall cooperating institution envelope.

75. **Increased follow-up and other implementation support measures for both loans and grants as a result of the larger portfolio.** Delivering on Sixth Replenishment commitments for a sharper focus on impact accompanied by appropriate results reporting has renewed the need for sound project review processes that support mid-course corrections in project implementation. This is an essential element for an institution such as IFAD that strongly emphasizes flexibility in design and

¹¹ Portfolio Performance Report (document EB 2005/84/R.38).

implementation. As a consequence, greater dialogue with borrowers has been needed during implementation and during the project completion phase, when the reporting requirements on impact achievement are especially arduous.

Field Presence Pilot Programme

76. In September 2003, the Executive Board (supported by the Ad Hoc Working Group of the Executive Board on Field Presence) authorized IFAD to draw up guidelines and criteria for selecting countries and instruments to enhance its in-country presence and to submit an implementation programme – with time-bound proposals – for each of the 15 initiatives.

77. The resulting Field Presence Pilot Programme (FPPP) aims to help IFAD realize its Strategic Framework objectives by strengthening and integrating four interrelated dimensions: project implementation, policy dialogue, partnership-building, and knowledge management. In the process, the FPPP deepens IFAD's engagement in terms of providing implementation support at the country level, while proposing additional dimensions for policy changes, partnership-building with national and other donor partners, and documenting and synthesizing knowledge gained during programme implementation. The flexible design of the FPPP allows for a variety of arrangements.

78. The progress report on the FPPP, presented to the Executive Board in April 2005, stated that design work on all 15 initiatives had been completed and that six initiatives were operational.¹² The FPPP will be in its third year of implementation in 2006.

F. Administrative Budget

Proposed Level of the Administrative Budget

79. After eleven years of zero or negative real growth, IFAD's administrative budget (including one-time costs) will show a real increase of 9.7% in the 2006 budget. This is partly in response to the significantly increased programme of work (5.0%), and partly to the strengthening of the Strategic Planning and Budget, Communications and Policy Divisions, an enlarged training programme, and implementation of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (4.7%). The budget also includes an upward adjustment after so many years of zero real growth, but this is effectively offset by part of the decrease in one-time costs.

80. As Table 4 shows, the administrative budget (including one-time costs) shows a nominal increase of 13.7%, composed of price increases of 4% and a real increase of 9.7%. The price increases include a 5% price increase in staff costs in accordance with International Civil Service Commission estimates, plus a 2% inflation rate applied to non-staff costs.

¹² Progress Report on IFAD Field Presence Pilot Programme (document EB 2005/84/R.39).

Table 4. IFAD Administrative Budget and One-Time Costs

| | 2005 (USD 000) | 2006 (USD 000) | Increase/ Decrease (USD 000) | Increase/ Decrease (%) |
|------------------------------|---------------------------|---------------------------|---|---------------------------------------|
| Administrative budget | 53 343 | 64 000 | 10 657 | 20.0 |
| One-time costs | 3 573 | 720 | -2 853 | -79.8 |
| Total | 56 916 | 64 720 | 7 804 | 13.7 |
| | | | | |

81. The increased volume of projects in 2006, both in terms of dollars (10%) and in number of operations (approximately 32% [37 projects]), accounts for about 5% of the proposed real increase of 9.7%. The delivery of a substantially increased programme of work has repercussions throughout the organization (not just in PMD), affecting for instance legal services, loan and grant administration, and the Office of the Secretary in relation to the increased volume of documents. An increased programme of work also requires additional staff, in turn necessitating additional recruitment and the implied administrative costs to accommodate this staff.

82. Table 5 shows that, for 2005, the Executive Board approved an 8% increase in the programme of work vis-à-vis the level approved for 2004, while the administrative budget remained at zero real growth. The many years of zero real growth have stretched IFAD's administrative cost-covering to the limit; accordingly, the proposed budget for 2006 includes cost increases in relation to items such as higher levels of security and the increasing frequency and length of meetings.

Table 5: Changes in Level of the Administrative Budget and Programme of Work, 1995-2005

| | Administrative Budget | Programme of Work | |
|------|--|---------------------------------------|---------------------------------------|
| | Real Increase/Decrease over Previous Year (%) | Approved (USD million) | Increase/ Decrease (%) |
| 1995 | -3.6 | 415 | |
| 1996 | -8.08 | 455 | 10 |
| 1997 | 0 | 450 | -1 |
| 1998 | -0.26 | 459 | 2 |
| 1999 | -0.04 | 473 | 3 |
| 2000 | 0 | 482 | 2 |
| 2001 | 0 | 423 | -12 |
| 2002 | 0 | 437 | 3 |
| 2003 | 0 | 450 | 3 |
| 2004 | 0 | 463 | 3 |
| 2005 | 0 | 500 | 8 |

83. The year 2001 saw the introduction of one-time costs, which signalled the initial stages of strain on the administrative budget. One-time costs peaked in 2004 and, as the Board and the Audit Committee pointed out, some of the items were not strictly of a one-off nature. During the review last year of the programme of work and budget for 2005, the Audit Committee and Board requested that management review all one-time costs. This has been done; and, as a result, any costs not strictly of a one-off nature have been moved to the administrative budget – hence, the need to consider both

budgets together. Items such as Audit Committee meeting costs and increased security costs, which were previously shown as one-time costs, are now part of the administrative budget. The items included for 2006 as one-time costs have been closely reviewed to ensure they are not of a recurring nature.

84. The remainder of the real increase (4.7%) relates to the implementation of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, the increase in training and the strengthening of various functions within IFAD as follows:

- Oversight and risk management are topics that are very current both within the United Nations system and in the business community at large. Accordingly, IFAD recently adopted a fraud and corruption prevention policy, and 2006 will be the first year of its implementation.
- In recognition of the importance of staff training and the fact that the Fund's current training budget is below the industry standard, it is proposed to increase the training budget over and above mere price increases.
- The policy and communications functions were formalized in 2002 with the creation of two divisions. However, these divisions have had to operate in a zero-real-growth environment and, consequently, have not had a realistic administrative budget base. It is proposed to rectify this in 2006 to enable them to operate more efficiently.
- The Strategic Planning and Budget Unit was formed in December 2003. Although resources were transferred from the Office of the Controller, the increased emphasis on planning and the process of linking strategies with budgets require additional skill sets. It is proposed that the unit be strengthened to accommodate these evolving tasks.

85. The overall administrative budget will be provided in the budget submission to the December session of the Board. It should be noted that an administrative budget of USD 65 million represents only a small increase over 2005 in terms of the proportion of administrative expenses to the total programme. Annex I shows administrative expenses as a percentage of IFAD's total programme since 2002.

Comparison of Budget Process and Policies with other IFIs

86. At the request of the Audit Committee, IFAD's budget process has been compared with that of other IFIs¹³ and has been found to be "heavy", in that there are many steps requiring frequent involvement from the divisions. Inasmuch as the action plan includes the preparation of a corporate medium-term plan, the role of – and need for – the strategic priorities and programme of work paper will need to be reviewed, since the corporate medium-term plan will chart the strategic direction and thus be linked into the annual programme of work and budget to be submitted to the Audit Committee and the December session of the Executive Board.

87. In addition, the following budget policies were described and compared with other IFIs:

- zero real growth
- one-time costs
- carry-forward policy

88. It was found that IFAD has adopted the same zero real growth definition as other IFIs in that a "hybrid" zero real growth has been used, where retail inflation rates are applied to non-staff costs,

¹³ See the paper "Comparison of the Budget Process between IFAD and other International Financial Institutions" presented at the informal seminar of the Audit Committee held on 4 July 2005.

while various comparators are applied to staff costs. These comparators are calculated in various ways, but in general reflect average industry increases. In IFAD's case, they reflect the increases specified by the International Civil Service Commission.

89. One-time costs is a term used by IFAD to describe a group of extra-budgetary expenditures that are below the line of the normal administrative budget and relate to one-off projects or activities. Although other IFIs do not use the term one-time costs, they do have extra-budgetary expenses often described as "capital budgets", "special capital expenditure programmes" or "special resolution items". During the preparation of the 2006 budget, any items submitted as one-time costs will be closely scrutinized to ensure that they are of a truly one-off nature and not recurring in character.

90. Most IFIs have a carry-over policy with respect to their administrative budgets ranging from 1.5% to 4%. Capital budgets or special programme budgets can be multi-year in nature and in that sense can be "carried forward".

91. A detailed discussion of these policies can be found in the relevant documents presented to the informal seminar of the Audit Committee on 4 July 2005.

G. Risk Management

92. As reported to the Audit Committee in March 2005, a risk management process is being gradually introduced in IFAD by building on current practices in such a manner as to avoid the creation of new permanent structures and positions. For this purpose, the divisional budget submission process was used to gather and aggregate the risks and exposures to the achievement of the institutional goals for 2006 and delivery of the expected outputs. With support from the Office of Internal Audit, a high-level list of institutional risks was extracted from the risks identified by the divisions in their 2006 budget submissions. For purposes of defining budgetary priorities, senior management considered this list of critical risks in its preliminary budget review. In addition to supporting budget allocation decisions, senior management considered possible risk-mitigating actions and, as appropriate, assigned responsibilities for their implementation. Senior management will monitor progress on the mitigating actions periodically throughout 2006. This is an initial approach to implementing risk management and will be refined and strengthened during 2005-06 based on the experience gained.

PART II – THE 2006 WORK PROGRAMME AND RESOURCE ISSUES FOR IFAD’S OFFICE OF EVALUATION

93. **Background.** This is the third work programme and resource issues paper prepared by the Office of Evaluation (OE) following the approval of the IFAD Evaluation Policy by the Executive Board in April 2003. In approving the said policy, the Board decided that OE would formulate its annual work programme and budget independently of management and submit it to the Board and Governing Council for approval. As per the Board’s decision and consistent with the approach taken in the last two years, the OE work programme and budget for 2006 is presented together with the IFAD’s programme of work and budget, but as a separate submission. Therefore, Part II of the present document is exclusively devoted to the preview of the OE work programme and resource issues for next year.

94. This preview was discussed with the Evaluation Committee during its fortieth session on 2 September. As per usual practice, the chairman of the Committee has provided his report to the Board summarizing the Committee’s deliberations and its recommendations on the document for approval by the Board. Following the discussion at this session of the Board and based on the guidance and comments provided by the Board and Committee members, OE will prepare its full work programme and budget proposal for 2006 for discussion with the Evaluation Committee during its next session on 7 October 2005. Thereafter, based on the further guidance of the Committee, OE will prepare its final work programme and budget proposal for 2006. As per the decision of the Executive Board in April 2004, the OE work programme and budget will also be considered by the Audit Committee in November 2005, together with the IFAD programme of work and budget.

95. **Achievements in 2005.** OE had four main priorities for 2005: (i) supervision of the Independent External Evaluation (IEE) of IFAD; (ii) conduct of selected corporate-level, regional strategy, country programme, thematic and project evaluations; (iii) specific evaluation work called for by the Evaluation Policy for presentation to the Executive Board and the Evaluation Committee; and (iv) methodological development, evaluation outreach and other activities.

96. Overall, OE has been able to respect the main priorities and implement almost all the planned activities for the year. OE has, indeed, achieved more than planned in some areas. Specific achievements are laid out against priority areas in Annex II.

97. In particular, the IEE¹⁴ was completed on time and within the overall budget allocation authorized by the Executive Board. The draft final report was discussed by the Board during its Eighty-Fourth Session in April 2005. The report consisted of four parts: (i) the report of the Director, OE (as the supervisor of the IEE); (ii) the draft final report submitted by the IEE team; (iii) comments of the IEE senior independent advisers; and (iv) IFAD management’s response to the IEE. The IEE raised numerous issues of importance for the Fund’s future.

98. In 2005, OE completed a corporate-level evaluation (CLE) of the direct supervision pilot programme, which generated far-reaching recommendations, inter alia, for IFAD to undertake implementation support activities in all its operations. During the year, OE introduced an early feedback note on the direct supervision CLE on an experimental basis. The objective of this note was to share the findings emerging from the CLE before the draft evaluation report was available for discussion. The note served to make IFAD management aware of the evaluation’s results early on in the process. OE also began the evaluation of IFAD’s regional strategy for Asia and the Pacific, which

¹⁴ In April 2003, the Executive Board entrusted the Director of OE with the responsibility of supervising the IEE.

entailed developing a specific methodology, as the division had not conducted an evaluation of this type previously. In this regard, an evaluation approach paper was prepared and discussed with key partners in two subregional workshops held in Islamabad, Pakistan, and Bangkok, Thailand, respectively.

99. As planned, OE undertook various country programme evaluations (CPEs) over the year. It concluded a CPE for Egypt, which underscored the need for a strategic shift in IFAD operations from lower to upper Egypt, where the prevalence of poverty is far greater. It is about to complete the CPE in Bangladesh, which highlighted among other issues, the need for IFAD to strengthen its partnership with the private sector to achieve greater results in its rural poverty reduction efforts. The CPEs in Mexico and Rwanda are currently ongoing. The Rwanda CPE highlighted, among other issues, that IFAD can play a useful developmental role in situations of conflict and post-conflict. The evaluation also underscored that sustainability is a significant challenge that needs to be addressed urgently. The Mexico CPE found that IFAD-funded projects have contributed to the Government's rural poverty reduction efforts, for example in terms of improving food security. In addition to the CPEs, OE finalized two thematic evaluations (TEs). The TE on decentralization in Eastern and Southern Africa recommended that IFAD look at decentralization in a more holistic manner as all types of institutions, including decentralized government administrative structures, local political bodies, grass-roots organizations and the private sector, have a role to play in rural development efforts. The TE on organic agriculture in Asia and the Pacific was also completed. This highlighted the potential that organic agriculture holds for sustainable rural poverty reduction. It also stressed the importance of strengthening the capacity of farmers' organizations to help small farmers in their efforts to engage in organic agriculture, for instance, in ensuring quality standards for organic produce and in identifying market opportunities. Finally as planned, OE completed four project evaluations, a further nine have been started and will be concluded by the end of 2005, while two more are to be started.

100. The new terms of reference and rules of procedure of the Evaluation Committee¹⁵ led to the expansion of the Committee's mandate, which now entails additional responsibilities for OE. In this regard, for the first time in 2005, OE reviewed the Portfolio Performance Report (PPR)¹⁶ prepared by management, and made specific suggestions to improve reporting format and content to render the report a more useful management tool in the future. It also reviewed and provided comments on the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions (PRISMA).^{17 18} Moreover, OE supported the Programme Management Department (PMD) in enhancing its self-evaluation capabilities. This represents an area of "overachievement" in 2005, given that during the year OE was merely required to develop a "proposal for OE's contribution to enhancing IFAD self-evaluation activities" to be implemented in 2006. In this regard, in 2005 OE: (i) made suggestions for improving the PPR and the PRISMA in terms of structure and content to ensure that these reports become more useful management tools; (ii) provided feedback on the PPR guidelines for 2006; (iii) furnished ongoing inputs to the results and impact management system (RIMS); and (iv) started working with PMD on the alignment of the ratings scale used in IFAD's self-evaluation and independent evaluation systems, to capture the 'net disconnect' between the results and outcomes derived from the two systems. The harmonization of the evaluation systems will, inter alia, facilitate the comparison of assessments and results, as well as facilitate the use by independent evaluations of the data generated by IFAD's self-evaluation activities. In 2006, OE will continue to provide inputs to PMD along similar lines.

101. OE continued work on upgrading its country programme and project evaluation methodologies. This upgrading was undertaken as a consultative process within the division, and the objective is to

¹⁵ Approved by the Executive Board in December 2004.

¹⁶ Previously called the Progress Report on the Project Portfolio

¹⁷ Previously called the President' Report on the Status of Implementation of Evaluation Recommendations.

¹⁸ This report and the PPR were both discussed with the Evaluation Committee and the Executive Board.

issue revised methodological guidelines by the end of 2005. Furthermore, OE introduced internal peer reviews as a quality assurance mechanism and knowledge-sharing device within the division for key evaluations.

102. So far, OE has organized, as planned, two Evaluation Committee sessions. During these sessions a number of key evaluations were discussed, such as the Egypt CPE and the CLE on the direct supervision pilot programme. The Committee chairman took part in the regional round table workshop on the thematic evaluation on decentralization in Eastern and Southern Africa held in Uganda, and in this regard, provided a report to the Executive Board during its session in April 2005. Lastly, arrangements are well advanced for the Evaluation Committee's field visit to Mexico in October in relation to the corresponding CPE.

103. In collaboration with the World Bank, the division organized a conference in Washington, D.C. early in the year to discuss and disseminate the results of the thematic evaluation on organic agriculture in Asia and the Pacific. Another conference with similar objectives is planned in cooperation with the African Development Bank for later in the year to discuss the thematic evaluation on decentralization. Finally, it is to be noted that the Mali CPE planned to start in November 2005 will be slightly delayed and start in January 2006.

104. This delay will allow OE to invest the limited resources originally allocated to the Mali CPE in 2005 in ensuring timely completion of the other CPEs in 2005 (Bangladesh, Mexico and Rwanda) and in launching the Morocco CPE as planned.

105. **Taking stock of 2005.** Before defining its priority areas, work programme and human and financial resource requirements for 2006, OE reviewed the experience of implementing its 2005 work programme and budget. For this purpose, OE conducted a mid-term review in June, which raised a number of important issues and challenges. Some of these are already being addressed while others will be considered in the second part of the year. First, in light of the experience gained in the implementation of the evaluation policy, OE recognizes the need to fine-tune some of its key evaluation processes. For example, the role and functioning of the evaluation core learning partnerships¹⁹ need to be clarified and enhanced so that they become even more useful platforms for learning and guidance to inform OE's evaluation work. Likewise, there is a need to define more precisely the process for formulating the agreements at completion point (see footnote 6) and the specific role of IFAD and its partners in the field.

106. Another key consideration is the need to take stock of and learn from the good practices used by IEE. That is, the IEE has been a major undertaking for IFAD; it included various interesting concepts, methodological approaches and activities that are worth considering as they could provide, with the appropriate adjustments, useful guidance for strengthening OE's work.

107. A more systematic management of OE consultants is required as this is a crucial area of OE's work. The quality of consultants is a key factor in determining the overall quality of evaluations conducted by the division. There is a need to develop a more methodical approach and clearer criteria for the selection of consultants, find ways to accurately measure their level of effort and determine which tasks should be outsourced to consultants, develop effective ways of managing consultants to ensure that they provide the required services and deliverables in a timely manner, and systematically conduct performance evaluations after each assignment. Work in this area has been progressing

¹⁹ The core learning partnership helps flag issues and information sources for the evaluation. It also discusses the evaluation findings, deepens the understanding of the findings and recommendations, and eventually works out the operational implications of evaluation recommendations and the division of labour and responsibilities for their implementation among the various stakeholders involved. The core learning partnership's output is recorded in an understanding or agreement at completion point (ACP) among relevant stakeholders (see paragraph 33 of the IFAD Evaluation Policy [document EB 2003/78/R.17/Rev.1]).

steadily and an overall management framework for OE consultants, incorporating these and related matters, will be introduced by the beginning of 2006.

108. While OE has already introduced over the past couple of years methodologies for project and country programme evaluations, the division recognizes that these are not static instruments and need adjustment to incorporate experiences gained during their implementation and state-of-the-art-thinking on the subject. Hence, methodological development is an ongoing process that the division must continue to emphasize. In fact, OE is currently investing time and effort in further developing its project and country programme evaluation methodologies.

109. In the past, the Evaluation Committee and the Executive Board have expressed concern about OE's workload, noting the need for the division's work programme to be manageable within the planned time frames. This is a concern shared by OE staff. Consequently in 2006, OE will conduct an overall systematic workload assessment that will inform the preparation of its work programme in 2007. The workload assessment will provide the basis for streamlining resources and for enhancing the quality of OE's evaluation work. Preparatory work will be conducted in the second part of the year to facilitate a comprehensive workload analysis, which will be concluded in June 2006 prior to the preparation of the OE work programme and budget for 2007.

110. **OE priorities for 2006.** In addition to the lessons learned in 2004 and 2005 in identifying the priorities for 2006, OE has taken into consideration IFAD's strategic guidelines for the preparation of the 2006 unit work programmes. As a result, OE has developed priorities for 2006 that on the one hand satisfy the requirements of the Evaluation Policy, and on the other, are aligned with the key institutional priorities for 2006.

111. For 2006, OE has therefore identified **four main priority areas**. These are:

- (a) conduct of selected corporate-level, regional strategy, country programme, thematic and project evaluations;
- (b) specific evaluation work required by the Evaluation Policy for presentation to the Executive Board and Evaluation Committee;
- (c) methodological development; and
- (d) evaluation outreach and partnerships.

112. Priority area (a) represents the core of OE's work programme, both in terms of the level of activities and in terms of the proportion of human and financial resources allocated. Under this priority, OE will finalize the CLE of the IFAD Rural Finance Policy, due to start in September 2005. In addition, OE will commence another CLE in the second half of 2006. In this regard, it is important to note that the Executive Board has already decided that OE will undertake evaluations of various corporate initiatives within specific time frames (see Table 6). These will need to be taken into account in developing OE's work programme in the coming years.

Table 6: Corporate-Level Evaluations and Their Scheduling as Decided by the Executive Board

| Evaluation Topic | Time Frame ^a |
|--|---|
| 1. Field Presence Pilot Programme | To be initiated in 2006, with Board discussion at its session in September 2007 |
| 2. Flexible Lending Mechanism (FLM) | 2006/2007 |
| 3. Initiative for Mainstreaming Innovation (IMI) | 2007/2008 ^b |
| 4. Sector-wide approaches (SWAps) | 2008/2009 ^c |
| 5. Private-Sector Development and Partnership Strategy | 2009/2010 ^d |

^a These time frames have been decided by the Board while approving the proposals on the corresponding topic submitted by IFAD management.

^b In this case, the Board did not determine a specific time. It decided that following the completion of the IMI implementation phase, OE would conduct its evaluation. It is hence deduced that OE would be called upon to evaluate the IMI in 2007/2008, given that the time frame for IMI implementation is from 2005-2007.

^c The Board called for the evaluation to be conducted "in 2008".

^d The Board decided that this evaluation would be conducted "at the end of 2008".

113. As agreed by the Evaluation Committee and Executive Board, it is recalled that given the complexity of CLEs and the human and financial resources they absorb, OE can only undertake one such evaluation per year. In addition, CLEs require thorough engagement by IFAD management and other staff, and this needs serious consideration to ensure timely internalization and follow-up on the results and recommendations of such evaluations. Moreover, in scheduling such evaluations, the availability of an adequate data and information base is fundamental to ensuring a sound and credible analysis.

114. On the basis of these considerations, OE proposes to undertake the CLE on the Field Presence Pilot Programme in 2006/2007, given its overall importance and particularly in the context of the new operating model being developed by IFAD in response to the IEE. The proposal would be to start this evaluation in mid-2006 in time for it to be ready for discussion with the Board in September 2007, as per the Board decision. OE also proposes to undertake some preparatory work towards the end of 2006 for the CLE of the Action Plan: IFAD Management's Response to the IEE, which will be undertaken fully in 2007. In this way, its results can be made available before the start of the Consultation on the Eighth Replenishment of IFAD's Resources. Thereafter, as reflected in the table above and as a follow-up to the previous evaluation on innovations²⁰, OE proposes to commence in the last quarter of 2007 the CLE of the Initiative for Mainstreaming Innovation (IMI), for completion in 2008. This will be followed by the evaluation of sector-wide approaches (SWAps) in 2008/2009 and of the Private-Sector Development and Partnership Strategy (2009/2010). Finally, OE proposes to drop the undertaking of a CLE on the Flexible Lending Mechanism (FLM). The investments in and learning from such an evaluation by OE may not yield due value, given the current low institutional priority of the FLM as a funding instrument.

115. In addition to the above, the division will complete the IFAD regional strategy evaluations of the Asia and the Pacific Division (PI) and the Near East and North Africa Division (PN). OE is also planning five country programme evaluations and around nine project evaluations. While no specific

²⁰ Evaluation of IFAD's capacity as a promoter of replicable innovations, November 2002.

thematic evaluation is planned in 2006, it must be noted that the ongoing regional strategy evaluations in PI and PN will by nature of their overall objectives and scope also cover a range of thematic areas in the two concerned regions. Moreover, by undertaking the CLE of the Rural Finance Policy, OE will be devoting significant attention and resources to a theme of major importance to the Fund. In sum, the exact number and types of evaluations to be conducted will be determined by a review of actual progress in implementation of the 2005 OE work programme that will be undertaken in September 2005 and other considerations that may arise at that time.

116. Under priority area (b), OE will prepare the fourth Annual Report on the Results and Impact of IFAD Operations (ARRI) evaluated in 2005, which is a requirement of the Evaluation Policy. As in the past, the ARRI aims at consolidating and synthesizing the results and impact of IFAD operations based on evaluations undertaken in the previous year, and identifying cross-cutting issues and lessons learned of wider interest related to IFAD operations. The ARRI will be discussed both with the Evaluation Committee and with the Executive Board in December 2006.

117. OE will formulate its work programme and budget for 2007 and present same for discussion with the Evaluation Committee and consideration by the Executive Board, according to established procedures and requirements.

118. In line with the new terms of reference and rules of procedure of the Evaluation Committee, OE will organize four sessions of the Committee in 2006 and any other special sessions that the Committee Chairperson deems necessary. The Committee will review any operation policy proposals in 2006 arising from evaluation lessons and recommendations (such as IFAD's targeting and supervision policies), including OE comments on the proposals, before they are considered by the Executive Board. As in 2005, OE will review and prepare its comments on the PPR and the PRISMA. OE's comments will be presented together with the PPR and the PRISMA, and discussed first in the Evaluation Committee and thereafter in the Executive Board in April and September 2006 respectively. The Committee will, as in the past, discuss key evaluations undertaken by OE. Finally, a field visit for the Evaluation Committee will be organized during the year in connection with a major evaluation event. This will be determined by the Committee at its December 2005 session, when it will also define its overall provisional agenda for 2006.

119. Under priority area (c), OE will implement its improved methodological framework for project evaluation and CPE methodology in all project evaluations and CPEs in 2006. The division will ensure thorough oversight in the application of the methodologies, which is important to ensure evaluation results and outputs of comparable quality. Skills of OE staff and consultants will be enhanced to ensure proper understanding and application of the methodologies. Finally, based on the specific areas identified in 2005, OE will continue to lend support to the efforts of PMD in improving IFAD's self-evaluation capabilities, for instance, in ensuring the appropriate implementation of the RIMS, as well as contribute to enhancing the PRISMA and PPR.

120. Under priority area (d), OE will continue its efforts to ensure a wider dissemination of evaluation results using a variety of products and instruments, recognizing that added attention needs to be devoted to providing feedback in an appropriate manner to partners at the country level. The peer reviews of higher-plane evaluations²¹ undertaken by OE will contribute to knowledge-sharing efforts within the division. Furthermore, OE will organize a conference on evaluation that will serve as an opportunity to exchange views on issues of broader interest to a range of stakeholders. OE will continue to participate in the deliberations of the United Nations Evaluation Group and the International Development Evaluation Association. It will also take part in selected international and regional conferences on evaluation.

²¹ That is, CLEs, TEs, CPEs and regional strategy evaluations.

121. **Human resource requirements.** In 2006, OE expects to have the same staff level requirement as 2005. Annex III provides a summary of the OE human resource requirements for 2006. To contribute to skill and competency development within the division, relevant OE staff will participate in appropriate training programmes to improve their expertise in state-of-the-art evaluation methodologies and techniques, as well as upgrade their knowledge of the relevant new systems and procedures introduced within IFAD.

122. **Financial resource issues.** It is foreseen that the above priorities and work programme will require a similar level of resources to that of 2005.

123. The final budget for 2006, will be presented to the Executive Board in December 2005. As for the rest of IFAD, it will include the same inflation factor that the Fund will apply in the preparation of its own administrative budget for next year. Similarly, OE's administrative budget will have to take into account any adjustments to staff costs resulting from changes in staff entitlements or salary increases dictated by the United Nations Common System as well as the restatement²² of the 2005 budget approved by the Governing Council. The OE budget proposal for 2006 is presented in Annex IV, laid out by expenditure and by activity.

124. In OE's 2004 and 2005 budget submissions, a contingency budget was included to finance unforeseen expenditure in relation to the work of the Evaluation Committee and costs arising from changes in staff entitlements or salary increases dictated by the United Nations Common System. The contingency was also introduced to cover any possible unforeseen expenditures resulting from the full implementation of the Evaluation Policy, in its first two years. So far, USD 33 000 (representing around 11% of the overall contingency allocation over the two years) has been used by the division.²³ In this regard, OE will have a more complete picture of the overall use of the contingency allocation by the end of December 2005. Finally, in line with the decision of the Executive Board in December 2004, OE will not include a contingency budget line next year, but will incorporate the total contingency amount that will be eventually utilized by December 2005, into its 2006 administrative budget proposal.

125. In sum, the level of the OE budget for 2006 will be close to USD 4.7 million. The exact figure will be determined at the time of submission of the OE work programme and budget to the Executive Board in December 2005 based on the considerations in paragraphs 112-120.

²² As a result of any fluctuations in the United States dollar/euro exchange rate.

²³ In December 2004, the Director of OE provided the Executive Board with a specific account of how the contingency allocation was used in 2004 (see document EB 2004/83/INF.7).

PART III – RECOMMENDATIONS

126. The Executive Board is invited to:

- (i) provide comments and guidance on the strategic priorities and proposed programme of work for IFAD for 2006 as described in Part I of this paper, including the level of the programme of work, PDFF and administrative budget; and
- (ii) provide comments, guidance to Office of Evaluation on the proposed programme of work and budget presented in Part II of this paper.

127. Based on the deliberations and decisions of the Executive Board in the present session, the Fund will prepare the final proposed programme of work and budget for 2006, for consideration by the Audit Committee at its November 2005 meeting as well as by the Executive Board at its Eighty-Sixth Session in December.

ADMINISTRATIVE EXPENSES AS A PERCENTAGE OF TOTAL PROGRAMME

| | (USD million) | | | | |
|---|--------------------|--------------------|--------------------|-----------------|-----------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| Loans | 366 | 404 | 443 | 450 | 500 |
| Grants | 24 | 20 | 47 | 50 | 50 |
| Administrative expenses | 40 | 49 | 57 | 57 | 65 |
| Total | 430 | 473 | 547 | 557 | 615 |
| Administrative expenses as a percentage of the total ^a | 9.4% | 10.4% | 10.4% | 10.2% | 10.6% |
| Source: | Annual Report 2002 | Annual Report 2003 | Annual Report 2004 | Approved Budget | Proposed Budget |
| ^a Calculated as: administrative expenses divided by (total loan and grant programme plus administrative expenses). This is the same methodology used by the IEE, see Draft Final Report (Table 19, II-77). | | | | | |

OE ACHIEVEMENTS IN RELATION TO PLANNED PRIORITIES AND ACTIVITIES IN 2005

| Priority Area | Type of Work | Evaluation Activities | Planned Implementation Status | Present Status (July 2005) |
|--|---|---|--------------------------------------|--|
| (a) Supervision of the Independent External Evaluation of IFAD | 1. Independent External Evaluation | Supervision of the IEE | To be completed by July 2005 | Completed as planned |
| (b) Conduct of selected corporate-level, regional strategy, country programme, thematic and project evaluations | 2. Corporate-level evaluations | Evaluation of IFAD's direct supervision pilot programme | To be completed by September 2005 | Will be completed as planned |
| | | Evaluation of IFAD's Rural Finance Policy | To start in September 2005 | Will start as planned |
| | 3. Regional strategy evaluations | Evaluation of the regional strategy in PI | To be completed by December 2005 | Start up delayed, will be completed by July 2006 |
| | | Evaluation of the regional strategy in PN | To start in November 2005 | Will start as planned |
| | 4. Country programme evaluations | Bangladesh, PI | To be completed by December 2005 | Will be completed as planned |
| | | Egypt, PN | To be completed by March 2005 | Completed as planned |
| | | Mali, PA | To start in November 2005 | To start in January 2006 |
| | | Mexico, PL | To be completed by December 2005 | Will be completed as planned |
| | | Morocco, PN | To start in November 2005 | Will start as planned |
| | | Rwanda, PF | To be completed by December 2005 | Will be completed as planned |
| | 5. Thematic evaluations | Decentralization efforts in eastern and southern Africa, PF | To be completed by March 2005 | Completed as planned |
| | | Organic agriculture in Asia, PI | To be completed by March 2005 | Completed as planned |
| | 6. Project evaluations 6.1 Interim evaluations | Ethiopia: Special Country Programme II, PF | To be completed by March 2005 | Completed as planned |
| | | Gambia: Rural Finance and Community Initiatives Project, PA | To be completed by January 2005 | Completed as planned |
| | | Ghana: Upper East Region Land Conservation and Smallholder Rehabilitation Project, PA | To be completed by September 2005 | Will be completed on schedule |
| | | Ghana: Upper West Agricultural Development Project, PA | To be completed by September 2005 | Will be completed on schedule |
| Guinea: Fouta Djallon Local Development and Agricultural Rehabilitation Programme, PA | | To be completed by April 2005 | Completed on schedule | |
| | | | | |

| Priority Area | Type of Work | Evaluation Activities | Planned Implementation Status | Present Status (July 2005) |
|--|-----------------------------------|--|-----------------------------------|--|
| | | India: North Eastern Region Community | To be completed by April 2005 | Will be completed in September 2005 |
| | | Mexico: Rural Development Project of the Mayan Communities in the Yucatan Peninsula, PL | To be completed by March 2005 | Will be completed in September 2005 |
| | | Peru: Development of the Puno-Cusco Corridor Project, PL | To start in December 2005 | Will start on schedule |
| | | Uganda: District Development Support Programme, PF | To be completed by April 2005 | Completed on schedule |
| | | Venezuela: Economic Development of Poor Rural Communities Project, PL | To be completed by September 2005 | Will be completed as planned |
| | 6.2 Completion evaluations | China: Southwest Anhui Integrated Agricultural Development Project, PI | To be completed in March 2006 | Will be completed in December 2005 |
| | | Mongolia: Arhangai Rural Poverty Alleviation Project, PI | To be completed in March 2006 | Will be completed in December 2005 |
| | | Morocco: Tafilalet and Dades Rural Development Project, PN | To be completed by September 2005 | Will be completed in December 2005 |
| | | Mozambique: Family Sector Livestock Development Programme, PF | To be completed by November 2005 | Will be completed in December 2005 |
| | | Romania: Apuseni Development Project, PN | To start in September 2005 | To start in January 2006 |
| (c) Specific evaluation work called for by the Evaluation Policy for presentation to the Executive Board and Evaluation Committee | 7. Evaluation Committee | Implementation of four regular sessions and any additional ad hoc sessions according to the proposed revised terms of reference and rules of procedure of the Evaluation Committee | Four regular sessions in 2005 | Two regular sessions conducted as per schedule |
| | | Preparation of the work programme and budget for 2006 | January-December 2005 | Preparation on schedule |
| | | OE's comments on the President's Report on the Implementation Status of Evaluation Recommendations and Management Action | June-September 2005 | Preparation on schedule |

| Priority Area | Type of Work | Evaluation Activities | Planned Implementation Status | Present Status (July 2005) |
|--|---|--|----------------------------------|---|
| | | Third ARRI | January-September 2005 | Will be presented to the Executive Board in December 2005 |
| | | OE Comments on the PMD Progress Report on the Project Portfolio | January-April 2005 | Completed as planned |
| (d) Methodological development, evaluation outreach and other activities | 8. Methodological work | Revisiting of CPE methodology and the methodological framework for project evaluation | To be completed by December 2005 | Activity on schedule |
| | | Proposal for OE's contribution to enhancing IFAD's self-evaluation activities | To be completed by December 2005 | Activity on schedule |
| | | Conference on Evaluation | December-April 2005 | Activity on schedule |
| | 9. Communication activities | OE reports, evaluation profiles and insights, and web site | January-December 2005 | Activities on schedule |
| | 10. Management of consultants | Review of OE's approach to enhancing performance and quality | To be completed by December 2005 | Activity on schedule |
| | 11. Partnerships | United Nations Evaluation Group and the Swiss Development and Cooperation/OE Partnership in Development Effectiveness through Evaluation | January-December 2005 | Activities on schedule |
| | 12. OPV/OE coordination | Quarterly activity review meetings | Four meetings in 2005 | One meeting held in first semester |
| 13. Project development teams (PDTs) and operational strategy committee (OSC) | Two PDTs per Evaluation Officer and OSCs are required | January-December 2005 | Activities on schedule | |

Note: OPV = Office of the President and the Vice-President
PA = Western and Central Africa Division
PF = Eastern and Southern Africa Division
PI = Asia and the Pacific Division
PL = Latin America and the Caribbean Division
PN = Near East and North Africa Division

ANNEX III

**OE STAFF LEVELS FOR 2006
(Number)**

| | Regular Posts | Temporary Staff | Total |
|-----------------------|----------------------|------------------------|--------------|
| Administrative budget | 15.5 | 2.5 | 18 |

Notes:

- In 2006, OE will have the services of three associate professional officers from Belgium, Germany and Italy.
- Temporary staff have contracts under the Chapter X provisions of the IFAD Human Resources Handbook.

OE 2006 BUDGET PROPOSAL

**Table 1: OE 2006 Budget by Expenditure
(USD '000)**

| | 2005 ^a | 2006 ^b |
|-------------------------------|-------------------|-------------------|
| Staff costs | 2 139 | 2 144 |
| Regular and fixed-term staff | 1 837 | 1 896 |
| Temporary staff | 288 | 233 |
| Overtime | 14 | 15 |
| Evaluation work | 2 108 | 2 233 |
| Corporate-level evaluations | 115 | 585 |
| Regional strategy evaluations | 230 | 370 |
| Country programme evaluations | 591 | 410 |
| Thematic evaluations | 36 | - |
| Project evaluations | 784 | 558 |
| Other activities ^c | 351 | 310 |
| Evaluation Committee | 67 | 69 |
| Staff travel | 262 | 268 |
| Contingency | 114 | - |
| Total | 4 692 | 4 714 |

^a As approved by the Governing Council in February 2005.

^b As for the rest of IFAD, OE has applied an inflation rate of 2% in relation to the 2005 approved budget.

^c This includes the preparation of the OE work programme and budget for 2007, the organization of OE's mid-year review workshop, management of consultants and communication activities.

Note: This is a preliminary budget, the final proposal will be submitted to the Executive Board in December 2005.

ANNEX IV

**Table 2: OE 2006 Budget by Activity^a
(USD '000)**

| OE Priorities for 2005 | 2005 | % | OE Priorities 2006 ^b | 2006 | % |
|---|--------------|------------|---|--------------|------------|
| (a) Supervision of the IEE | 46 | 1 | (a) Conduct of selected corporate-level, regional strategy, country programme, thematic and project evaluations | 3 613 | 77 |
| (b) Conduct of selected corporate-level, regional strategy, country programme, thematic and project evaluations | 3 472 | 74 | (b) Specific evaluation work required by the Evaluation Policy for presentation to the Executive Board and the Evaluation Committee | 736 | 16 |
| (c) Specific evaluation work called for by the Evaluation Policy for presentation to the Executive Board and the Evaluation Committee | 797 | 17 | (c) Methodological development | 162 | 3 |
| (d) Methodological development, evaluation outreach and other activities | 375 | 8 | (d) Evaluation outreach and partnerships | 202 | 4 |
| Total | 4 692 | 100 | | 4 714 | 100 |

^a Discrepancies in totals are due to rounding.

^b The 2006 priorities are not the same as those of 2005 (for example, priority (a) in 2005 does not match priority (a) for 2006 and so on). This should be taken into consideration when comparing priorities for the two years.