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STRATEGIC PRIORITIES AND PROGRAMME OF WORK AND BUDGET OF IFAD
AND ITS OFFICE OF EVALUATION FOR 2007

For: Review

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session.

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TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS	iii
EXECUTIVE SUMMARY	iv
PART I – STRATEGIC PRIORITIES AND PROGRAMME OF WORK AND BUDGET OF IFAD FOR 2007	1
A. External Context	1
B. Internal Context	2
C. Delivering Development Results in 2005-2006	2
D. Strategy Management for Raising Impact	5
E. Medium-term Framework for Development Results	6
F. Key Tasks in 2007	11
G. Programme of Work for 2007	12
H. Administrative Budget and PDFF in 2005 and 2006	14
I. Proposed Administrative Budget and PDFF for 2007	16
J. Risk Management	18
PART II – STRATEGIC PRIORITIES AND PROGRAMME OF WORK AND BUDGET FOR 2007 OF IFAD'S OFFICE OF EVALUATION	19
A. Background	19
B. Summary of the 2007 Preview	19
C. Achievements in 2006	20
D. Taking Stock of 2006	21
E. OE Priorities for 2007	22
F. Resource Issues	25
PART III – RECOMMENDATIONS	29
ANNEXES	
I. PROJECTED RESOURCES FOR COMMITMENT, 2004-2006	31
II. OE ACHIEVEMENTS IN RELATION TO PLANNED PRIORITIES AND ACTIVITIES IN 2006	32
III. OE STAFF LEVELS FOR 2007	35
IV. OE 2007 BUDGET PROPOSAL	36

TABLES

1. LOAN AND GRANT COMMITMENTS IN 2004 AND 2005	3
2. INDICATIVE LENDING PROGRAMME BY REGION FOR 2007	14
3. IMPACT OF ICSC RECOMMENDATION ON 2006 BASE COSTS	15
4. MANAGEMENT OF STAFF COST INCREASE STEMMING FROM ICSC RECOMMENDATION	15
5. PROPOSED ADMINISTRATIVE COST RATIO FOR 2007	17
6. COMPARISON OF RESTATED ADMINISTRATIVE BUDGET FOR 2006 WITH PROPOSED BUDGET FOR 2007	17
7. COMPARISON OF RESTATED PDFF FOR 2006 WITH PROPOSED PDFF FOR 2007	18
8. OVERVIEW OF PROPOSED CHANGES IN THE PROGRAMME OF WORK AND BUDGET FOR 2007 COMPARED WITH 2006	18
9. HIGHER-PLANE EVALUATIONS CONDUCTED BY OE, 2005-2007	27

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ARRI	annual report on the results and impact of IFAD operations
CPE	country programme evaluation
ICSC	International Civil Service Commission
KPIs	key performance indicators
MfDR	management for development results
OE	Office of Evaluation (of IFAD)
PDFF	Programme Development Financing Facility
RBCOSOP	results-based country strategic opportunities programme
RIMS	Results and Impact Management System

EXECUTIVE SUMMARY

Strategic Priorities and Programme of Work and Budget of IFAD for 2007

1. In 2007 a step change towards the strategic management of IFAD's work in the Seventh Replenishment period and beyond will be implemented. This will include:

- operationalization of the medium-term targets (2007-2009) of IFAD's Action Plan for Improving its Development Effectiveness and organizing the entire set of activities – in programme management, in finance and administration, and in external affairs – to achieve those targets;
- a medium-term strategy (2007-2009) for orderly increases in its programme of work; and
- stable and predictable multi-year parameters for managing the budget and the Programme Development Financing Facility (PDFF) based on agreed and transparent benchmarks and objectives.

2. With the adoption of a “management for development results” framework and consistent with the Action Plan commitment to implement a results-based approach to the programme of work and budget, key performance indicators have been identified for planning and performance management. The first summary report on actual performance against corporate-level key performance indicators will be provided to the Executive Board in the strategic priorities and programme of work paper for 2008.

3. In line with the commitment to increase the programme of work by 10% annually over the Seventh Replenishment period, the programme of work for 2007 would be set at US\$605 million. The number of new operations planned for 2007 would be 34 – representing a 6.3% increase in the number of loans and a 10% increase in lending.

4. At the Board's discussion in December 2005 of the programme of work and budget for 2006, it was agreed that IFAD's administrative costs ratio (ratio of the administrative budget plus PDFF to the programme of work *ex transfers*) should be capped at 17.1% and that IFAD should seek to reduce that ratio in future budgets. The total administrative costs proposed for 2007 amount to US\$99.1 million,¹ for an administrative costs ratio of 16.8%.

5. The proposed administrative budget of US\$65.4 million reflects zero real growth over the 2006 administrative budget restated to include the retroactive increase in General Service staff costs recommended by the International Civil Service Commission (ICSC). In line with the policy that a greater percentage of the Fund's costs should be devoted to programme development and implementation, it is proposed that the PDFF for 2007 be allocated US\$33.7 million. This represents a nominal increase of 10.1%, compared with the nominal 4% increase under the proposed zero real growth in the administrative budget.

6. As it applies to 2006, the ICSC-recommended increase will be absorbed within the approved 2006 administrative budget through the provisions made in the 2006 administrative budget for staff cost increases, savings from the freezing of new staff commitments for the remainder of 2006, and restriction of the scope of the 2006 staff promotions. Accruals saved in 2006 in the settlement of outstanding billings will also be drawn upon. With regard to the costs of the ICSC recommendation relative to 2005, it is proposed that the Governing Council authorize IFAD to make an extraordinary expenditure of US\$1.4 million.

¹ Subject to finalization of cost estimates relating to the After-Service Medical Coverage Scheme.

Strategic Priorities and Programme of Work and Budget for 2007 of IFAD's Office of Evaluation

7. In 2007, the Office of Evaluation (OE) will place further emphasis on higher-plane evaluations. Over the past few years, OE has introduced a number of internal changes and processes that have resulted in efficiency gains, allowing it to gradually undertake more higher-plane evaluations. However, this shift towards higher-plane evaluations has triggered a structural change in OE's work programme, increasing the overall workload and costs that can no longer be managed by the financial and human resources currently available. In 2007 OE also proposes to undertake a joint evaluation with the African Development Bank (AfDB) on agriculture and rural development policies and operations in Africa. This evaluation is a special opportunity to strengthen the partnership with AfDB. However, the evaluation – to be undertaken as a one-off activity – will have an impact on the size of OE's work programme and budget for 2007.

8. To carry out this work programme, OE will require an overall increase of US\$1.3 million for its 2007 budget, bringing the total amount to approximately US\$6.1 million. This increase is justified by: (i) the higher volume of evaluation work involved in conducting the joint evaluation with AfDB (estimated to cost around US\$800,000); and (ii) higher staff costs stemming from the increase in standard costs mandated by the ICSC across IFAD and from the incremental human resources required to implement the 2007 work programme.

STRATEGIC PRIORITIES AND PROGRAMME OF WORK AND BUDGET OF IFAD AND ITS OFFICE OF EVALUATION FOR 2007

PART I – STRATEGIC PRIORITIES AND PROGRAMME OF WORK AND BUDGET OF IFAD FOR 2007

A. External Context

1. Overall, the outlook for the reduction of extreme poverty appeared more positive in 2005-2006 than in many previous years. Continued rapid economic growth in the largest developing countries has contributed to an important improvement in global performance relative to the Millennium Development Goals. The global expansion that this has been part of has fuelled rises in commodity prices that are having positive impacts on primary exporters among developing countries – and among many small-scale farmers.
2. Nonetheless, gains have been neither universal nor uniform. Drought, natural disasters and civil strife have highlighted the vulnerability of the livelihoods of poor people in developing countries, particularly, but not exclusively, in rural areas, and growing inequality within fast-developing countries is prompting serious reflection on the need for greater and more targeted efforts to address rural poverty as the prime focus of extreme poverty. General acceptance of the reality of climate change is raising the issue of the special and long-term vulnerability of the livelihoods of rural people in the areas most exposed to negative change, while rising concerns about urban poverty – in a year when, for the first time in human history, half of the world's people lives in cities – has posed the challenge of doing more to tackle urban problems in the rural areas by addressing the push factors of the migration that is driving very rapid urban expansion.
3. Recognition of the linkage between extreme poverty and rural development is bringing the issue of agricultural development back onto the global development agenda. In spite of the serious difficulties that the Doha Round has encountered, its discussions have clearly underlined the importance of agriculture for developing countries. Donors are raising the profile of their programme of agricultural development assistance. As a reflection of this growing concern, agricultural development and its contribution to poverty reduction will, for the first time since 1982, be the centrepiece of the World Bank's World Development Report in 2008.
4. The desire to increase engagement in agricultural development for poverty reduction is emerging against the background of a measure of uncertainty about the appropriate direction and form of agricultural development assistance. It is recognized that distortions in the international agricultural trade and support regime seriously hinder sustainable change based on underlying comparative advantage, and there is broad sentiment that these distortions should be very much reduced. However, subsidies in member countries of the Organisation for Economic Co-operation and Development remain very high (reportedly exceeding US\$280 billion in 2005), and the practical prospects for reduction remain unclear. On the other hand, it is recognized that many of the traditional forms of assistance for agricultural development are no longer consistent with key policies in developing and developed countries, and that there is a need for approaches that combine adherence to the new development norms with greater effectiveness in carrying agricultural development not only into rural areas, but to the households of the extremely poor.
5. Commitments to development assistance have grown very rapidly, and the implementation of the Multilateral Debt Relief Initiative promises to substantially reduce the debt burden that has represented a tremendous obstacle to progress in the poorest countries. The international community is very actively seeking out effective instruments for assistance beyond debt relief, including an effective and efficient United Nations system. The search is for new solutions,

delivered efficiently and in a way that brings together and improves the development system as a whole – in the context of harmonization and in the special context of United Nations reform.

B. Internal Context

6. Those challenges – of providing new and effective solutions to rural poverty and agricultural development and of achieving results that enhance the impact of the system of development assistance as a whole – apply very much to IFAD. The critical internal factors shaping IFAD's activities have been the Seventh Replenishment, the Independent External Evaluation of IFAD (IEE) and the adoption of IFAD's Action Plan for Improving its Development Effectiveness. The Seventh Replenishment provides IFAD with increased resources to pursue its mandate. The IEE set important tasks for increasing IFAD's development impact through: focusing on areas in which it has clear comparative advantage in the system of development assistance; bringing innovations to national and international development processes, programmes and policies; developing and sharing knowledge broadly and systematically; building on its relations with poor people's organizations; and using its special skills and relations to improve global efforts to reduce rural poverty through the economic empowerment of poor people. The Action Plan is the Fund's principal tool for developing its responses to these challenges. Strongly engaging staff at all levels in raising the quality of IFAD's contribution to the new configuration of development and development assistance, the Action Plan addresses: strategic planning and guidance; the new operating model; knowledge management and innovation; and human resources management. It is a sweeping medium-term programme of change to raise IFAD's development impact, and a major commitment of IFAD's staff resources and energies. The status of implementation of the Action Plan is reported on in a separate paper.

C. Delivering Development Results in 2005-2006

7. IFAD's work is organized into three major areas. **Programme management** directly manages the programme of loans and grants and serves as the direct interface with rural poverty processes and partners at the national and regional level. **Finance and administration** oversees the financial management of resources, the corporate information-technology platform, the framework for decentralized staff management, and a secure working environment. **External affairs** develops strategic communications, supports policy development and innovation for staff guidance and for policy dialogue and knowledge-sharing at the global level, facilitates institutional learning, services corporate governance processes, mobilizes additional resources and maintains institutional memory. Operations in 2005 and 2006 preceded the onset of the Seventh Replenishment period, just as they preceded the approval of the Action Plan and the commencement of its main implementation phase. Nonetheless, operations in 2005 and 2006 had already paved the way for some of the features of the operational strategy for 2007, including an expanded programme of work and change for greater effectiveness.

Programme Management

8. In 2005, the Executive Board approved 31 programmes and projects for a total financing level of US\$480 million (compared with US\$443 million in 2004), including US\$32 million for loans to countries affected by the tsunami that struck in December 2004 (see table 1). These operations involved the mobilization of additional cofinancing (including domestic financing) in the amount of US\$569 million, for a total value of US\$1.05 billion. In 2005, grant financing totalling US\$50 million included US\$36.6 million for some 66 institutional partnerships in research, knowledge-sharing and innovation. Seven grants benefiting five Consultative Group on International Agricultural Research (CGIAR) institutions were approved. A total of US\$9 million was approved for country grants, including 14 large grants of which 12 were in conjunction with loan-funded operations.

TABLE 1: LOAN AND GRANT COMMITMENTS IN 2004 AND 2005*

	2004		2005	
	Number	Millions of U.S. dollars	Number	Millions of U.S. dollars
Loans	25	443	27	448
Tsunami-related loans	-	-	4	32
Subtotal	25	443	31	480
Grants and transfers to the Programme Development Financing Facility	87	47	66	50
Total		490		530
Increase from 2004 to 2005:				8.2%

* Converted from special drawing rights to United States dollars at the exchange rate prevailing on the date of approval by the Executive Board.

9. In 2006, an estimated 32 programmes and projects will be presented for Board approval for a total value of US\$495 million, 10% higher than in 2005 (excluding the tsunami-related loans).

10. The Fund has established a more rigorous review process for loans and grants, and has upgraded its project status reports (PSRs) to improve management of ongoing project implementation. The aggregate PSR ratings for 2005 show better performance in terms of compliance with procurement procedures, availability of funds, compliance with loan covenants and timeliness of reporting. A full 65% of projects were “mostly on target” (in meeting development objectives) with a further 17% on target. The category “substantially below target” has been reduced to 17%, compared with 25% in 2002. A special implementation support programme strengthened the start-up and the financial management of IFAD programmes and projects. Development of the Results and Impact Management System (RIMS) continued during 2005 and 2006. Data on a further 86 projects were processed and aggregated, and impact assessment surveys were undertaken for newly effective projects to support baseline analysis of nutritional status and income results indicators.

11. Of the 29 operations evaluated between 2002 and 2004 in the 2005 annual report on the results and impact of IFAD operations (the ARRI report), 87% were found to be highly or substantially relevant. Similarly, two thirds of the operations showed substantial effectiveness. The 2005 ARRI report found that the impact on food security was significantly positive, largely as a result of improvements in agricultural technologies and practices. Support for marketing was generally increasing. The impact on human assets was rated high or substantial in the operations evaluated over the past three years, although there is room for improvement.

12. The last three ARRI reports have all recorded the most pronounced impacts in the area of increasing the physical and financial assets of the poor, in particular the impact on physical assets such as irrigated land, household assets, soil conservation measures and livestock. As reported in the country programme evaluation for Egypt, IFAD investments in land reclamation in the New Lands have clearly made a large difference in quality of life for the targeted communities. The 2005 ARRI report also found that about 70% of operations were achieving either high or substantial impact towards the strategic objective of increased access to financial services and markets.

13. As one of the Action Plan deliverables, IFAD began posting Learning Notes on its website on 30 March 2006. These notes provide concise guidance on key issues in the design, execution

and evaluation of investments in rural development, and on the main tasks required of teams addressing them. The Initiative for Mainstreaming Innovation (IMI) is now in the second year of a planned three-year programme, and the first annual review – carried out by the Department for International Development of the United Kingdom of Great Britain and Northern Ireland in March 2006 – noted that good progress had been made. As part of the Action Plan, an innovation strategy drawing on the experience of the IMI will be presented to the September 2007 session of the Board. The strategy will provide specific directions regarding the role of IFAD as promoter of innovation in the field and will accordingly identify the changes to be brought to its work culture and processes.

14. In the light of the Paris Declaration on Aid Harmonization, all operations divisions strengthened ongoing partnerships and forged new ones, including corporate and field partnerships with the World Bank, African Development Bank and Asian Development Bank. These partnerships focused on mobilizing cofinancing funds but also on improved implementation and the potential for replicating successful, tested approaches and innovations. IFAD is currently adjusting its processes to ensure full compliance with the Paris Declaration monitoring criteria in such key areas as the use of country systems for procurement and auditing and the use of the borrower's financial budget and transaction systems to transfer and utilize funds.

External Affairs

15. By consolidating the Fund's external relations experience and expertise into a more cohesive department, IFAD leveraged the complementary services of policy, communication, resource mobilization and member relations to more efficiently and effectively meet the needs of its Member States, partners and internal clients – including through facilitating internal communication and the sharing of knowledge and information. Fusing communications and knowledge management objectives, the pilot phase of the IFAD Rural Poverty Portal was completed (an Action Plan deliverable).

16. Throughout 2005, in addition to the Fund's normal governance meetings, extensive consultations were held for the Seventh Replenishment, for a total of over 59 IFAD-coordinated events. The fourth session of the Consultation on the Seventh Replenishment of IFAD's Resources was held in Qatar, making it the third high-level meeting held by IFAD outside of Rome. The Fund processed a record seven million words of documentation for its governing bodies, publications, correspondence with Member States and internal reports

17. The resolution on the Seventh Replenishment – which was negotiated in the course of 2005 and adopted by the Governing Council in February 2006 – provides for a substantial increase in IFAD's financial ability to support country-level poverty reduction initiatives and the high-level policy framework for its future development. Through the mobilization of additional pledges, the structural gap of the previous Sixth Replenishment was reduced to less than 9% of the target. In addition, IFAD received US\$11.8 million in new supplementary funds for thematic and technical assistance, and US\$2.2 million in cofinancing under supplementary funds.

18. The Fund strengthened its internal policy development processes through the reorganization of its Policy Division and the establishment of the policy forum and policy reference groups, which have become effective cross-departmental instruments for shaping corporate policies. Externally, working in collaboration with the Food and Agriculture Organization of the United Nations (FAO), policy partnerships were forged around the International Conference on Agrarian Reform and Rural Development (ICARRD) and its follow-up, and the mid-term review of the economic partnership agreement negotiations between the European Union and the African, Caribbean and Pacific Group of States. IFAD launched the Farmers' Forum in 2006 as an ongoing, bottom-up consultation process between the Fund and farmer organizations. IFAD's

North American Liaison Office contributed to IFAD's operational harmonization and alignment with other parts of the United Nations system through participation in the United Nations Development Group and support for participation by the President of IFAD in the United Nations High-level Panel on System-wide Coherence. IFAD collaborated with FAO and the World Food Programme to provide inputs for the 2005 World Summit High-level Plenary Meeting of the 60th Session of the General Assembly, whose declaration included a commitment to increasing support for agricultural development and trade capacity-building in the agricultural sectors of developing countries.

Finance and Administration

19. Decentralized budget management went live on 1 January 2005 and IFAD staff have carried a heavy load in learning and applying its many aspects. With the help of additional systems and reporting improvements, and thanks to the experience gained in implementing a standard-costs approach to budgeting, the efficiency gains will soon become apparent. Decentralized budget management has enabled managers to better align expenditures with operational requirements according to unfolding requirements, allowing a very high level of budget utilization in 2005.

20. Within a framework of asset liability management and advance commitment authority, IFAD has increased the capacity of its resources to finance new commitments. Disbursements rose to record levels, partly as a result of stronger management of underperforming commitments. Compliance with loan audit requirements is now at a very high level.

21. Exploratory measures were taken in outsourcing services, and client satisfaction surveys (with operational group users) have been piloted. Going beyond the high-level benchmarking represented by the target administrative costs ratio, both the accounting and information technology areas are participating in cost benchmarking as part of a joint industry standards-setting initiative of international financial institutions (reflecting the comparability of their loan-based products and corresponding processes) that is being implemented by the American Productivity and Quality Center. Collaboration in administrative areas (e.g. procurement) – beyond existing cooperation in development activities proper – has begun with the Rome-based United Nations agencies.

22. An updated Human Resources Procedures Manual was launched in 2005 and is being revised in the light of lessons learned. Competency profiles for all positions have been agreed, staff competencies have been reviewed, individual training plans are being elaborated, and a comprehensive workload survey has been launched. The level of training was increased significantly, including for large numbers of staff in innovation and performance management. The performance evaluation system is generating meaningful feedback to staff on performance issues, an essential condition for the pilot pay-for-performance scheme planned to be implemented in 2007.

23. The year 2006 is witnessing a transformation in the corporate budgeting process: budget management is being subordinated to strategic development results planning and performance management, shifting the focus of attention from expenditure to achievement. The time involved in budget preparation itself is being very significantly reduced to bring IFAD more in line with the benchmarks of other international financial institutions.

D. Strategic Management for Raising Impact

24. In 2007 a step-change towards the strategic management of IFAD's work in the Seventh replenishment period and beyond will be implemented. This will include:

- (a) operationalization of the Action Plan's measurable medium-term targets (2007-2009) for raising IFAD's development effectiveness, and organizing its entire set of activities – in programme management, in finance and administration, and in external affairs – to achieve those targets;
- (b) a medium-term strategy (2007-2009) for orderly increases in its programme of work; and
- (c) stable and predictable multi-year parameters for managing the budget and the Programme Development Financing Facility (PDFF) based on agreed and transparent benchmarks and objectives.

25. This evolution towards focused, multi-year planning and performance management expresses a compact between IFAD and its Member States as articulated in the Action Plan, the Seventh Replenishment, and the Executive Board's endorsement of the 2006 annual programme of work and budget.

E. Medium-term Framework for Development Results

26. IFAD is committed to mainstreaming management for development results (MfDR) – the specific iteration of results-based management for the international development community – as a comprehensive organizational management strategy to enhance development results orientation at all levels: institutional, country and project. It is the principal corporate framework for raising the Fund's impact and efficiency.

27. The introduction and mainstreaming of MfDR will be achieved by enhancing organizational structures and internal processes for increased organizational effectiveness. The main initiatives in this direction include:

- (a) development of a new strategic framework to increase the strategic focus of IFAD's country programmes and introduce a corporate development effectiveness monitoring and reporting system;
- (b) reconfiguration of IFAD's operating model based on a new results-based country programme approach founded on the introduction of results-based country strategies and programmes, the establishment of country programme management teams, a more proactive approach to project implementation support, and more systematic attention to knowledge management and innovation;
- (c) strengthening of internal quality assurance mechanisms at entry and during implementation, that will in turn be subject to arm's-length review; and
- (d) adoption of a results-based approach to strategic planning and performance management to improve alignment of resources (allocation and usage) with corporate objectives, and to instil a culture of accountability for results.

28. Mainstreaming MfDR is a medium-term undertaking that requires sustained effort and a "learning by doing" approach. The shift in focus to managing performance and reporting on it in terms of contribution to corporate objectives is the most critical cultural change for successful implementation of MfDR, and is in turn contingent upon other essential elements coming together, such as: clarity on intended objectives (and results), identification of measures or indicators of performance, risk management, regular monitoring and reporting on performance, proactive management interventions to improve performance, and learning. Performance information is thus central to MfDR, which places an enormous premium on the development of simple information technology systems that permit efficient recording, retrieval and reporting of performance data.

29. The first step in MfDR is the identification of long-term goals and objectives. Taking into account the performance targets articulated in the Action Plan,² the revised strategic framework (to be presented to the Executive Board in December 2006) will articulate how IFAD intends to contribute to global efforts to reduce poverty, and define the development goals and objectives. It will provide a framework for the strategic management of the organization and sit at the apex of IFAD's MfDR system.

30. From 2007 on, these goals and objectives will be reflected in IFAD's country-level operations through results-based country strategic opportunities papers (RBCOSOPs), including the respective country programme management matrix. Country programme management will focus on actual performance in terms of outcomes and on feeding back knowledge and lessons learned for decision-making. This will be supported by improved quality assurance systems for quality at entry and quality of implementation support (within the framework of a new supervision policy). Given the premium that MfDR places on monitoring and reporting, increased attention will be given to strengthening project monitoring and evaluation systems and IFAD's Results and Impact Management System (RIMS). Collaboration with the Office of Evaluation will be reinforced to improve learning and to feed knowledge back into improving performance, by providing answers to the questions: what has worked? what has not? and why?

31. A main feature of IFAD's strategic framework, regional strategies and RBCOSOPs is their focus on development effectiveness. They describe the links between and the contribution that IFAD's operational activities make to higher-level strategic goals and objectives and to country-level results. The substance of day-to-day management, however, is organizational effectiveness – putting in place, managing, implementing and fine-tuning the activities, systems and processes that provide the enabling conditions for IFAD to contribute to better country-level results, upon which IFAD's development effectiveness is based. Examples include: corporate governance, strategic planning, resource management, quality assurance, human resource management, monitoring, evaluation and lesson-learning, and reporting. These are the processes and systems over which IFAD exercises a high level of control, and for which IFAD is principally accountable. Proper management of these – for development effectiveness and for achievement of good results on the ground – is a key dimension of MfDR.

32. With an eye to improving the performance of internal processes and systems, work has begun on the development of a corporate planning and performance management system that increases overall alignment between functional units and corporate management objectives, and establishes a monitoring and reporting regime making possible quarterly and monthly monitoring for proactive management. This initiative responds to the need identified by the Independent External Evaluation of IFAD for the Fund to strengthen its culture of results and performance, and supports delivery of the Action Plan commitment to implement a results-based approach to IFAD's programme of work and budget, for presentation to the Executive Board in December 2007.

² Summary of Action Plan targets:

- (i) IFAD will maintain its current level of relevance (60% "high" and 40% "substantial") and ensure that its programmes and projects remain fully consistent with country development strategies and priorities.
- (ii) IFAD will aim for a level of 80% of projects expected to achieve their development objectives, and for which sustainability of impact will be substantial. Furthermore, IFAD will aim to raise innovation ratings and the contribution of IFAD policy and knowledge products.
- (iii) IFAD will aim for 60% of projects having a high or substantial level of efficiency.

IFAD's Medium-term Results and Indicators

33. The Fund's corporate planning and performance management system is designed to achieve the development effectiveness targets for 2009 established in the Action Plan (EB 2005/86/R.2/Rev.2). These medium-term targets relate to IFAD's ex post achievements in the areas of project relevance, project effectiveness and project efficiency. They represent a time-bound and measurable improvement of performance that IFAD is fully committed to achieve: the main reference point for the definition of apex corporate management objectives and key performance indicators (KPIs).

34. To achieve the development effectiveness targets by 2009, management has defined corporate management objectives and KPIs for both the operations and non-operations areas of the organization. This corporate planning and performance management system explicitly links two parallel reporting systems: one based on self-reporting and arm's-length internal mechanisms in relation to performance in terms of KPIs; and another, under the responsibility of the Office of Evaluation, based on project performance in terms of the three dimensions – relevance, effectiveness and efficiency (i.e. the same dimensions upon which the development effectiveness targets for 2009 have been established). This is designed to provide transparent evidence over time of the correlation (or cause-effect relationship) between improved organizational effectiveness and better development results.

35. The definition of operational corporate management KPIs drew on the Common Performance Assessment System (COMPAS) initiative spearheaded by the five main multilateral development banks (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and World Bank) as a product of the Multilateral Development Bank Working Group on Management for Development Results. Alignment with the COMPAS is a critical feature of IFAD's corporate planning and performance management system; it indicates adoption of best practice, and will permit comparison and benchmarking with similar organizations, which in itself will provide the practical targets to orient the improvement of IFAD's performance.

36. The operational corporate management objectives and KPIs are provided in the box below:

CORPORATE MANAGEMENT OBJECTIVES AND KEY PERFORMANCE INDICATORS
Corporate Management Objectives and KPIs for Operations Areas
<p>Better country programme design</p> <ul style="list-style-type: none"> ● Percentage of borrowers with a RBCOSOP* ● Ratio between IFAD financing and cofinancing in projects and programmes ● Rating according to partner surveys <p>Better project design (loans and grants)</p> <ul style="list-style-type: none"> ● Percentage of project designs rated good or better* ● Percentage of new/ongoing projects that include innovation objectives ● Number of knowledge assets on priority topics developed and used ● Measure of uptake of evaluation recommendations <p>Better implementation support</p> <ul style="list-style-type: none"> ● Percentage of projects with overall project status report (PSR) rating of 3 or 4* ● Proactivity index* ● Percentage of projects with PSR rating of 4 closed or suspended prior to original project closing date ● Percentage of project supervisions and implementation follow-up rated good or better* ● Average time from project approval to effectiveness ● Size of project portfolio under implementation
Corporate Management Objectives and KPIs for Non-operations Areas
<p>Improved resources management and mobilization</p> <ul style="list-style-type: none"> ● Percentage of Seventh Replenishment pledges received ● Additional resources mobilized, i.e. supplementary funds, cofinancing, Debt Initiative for Heavily Indebted Poor Countries, etc. ● Rate of return on investments (within agreed parameters and prudent management) <p>Improved human resources management</p> <ul style="list-style-type: none"> ● Percentage of Professional and General Service positions unfilled ● Percentage of staff successfully meeting all their competency requirements ● Quality of training <p>Improved administrative efficiency</p> <ul style="list-style-type: none"> ● Percentage decrease in ratio between administrative costs (including PDFF) and the programme of work ● Percentage of completion of key business processes to be analysed and streamlined compared to plan ● Percentage of documents received by the Office of the Secretary on time ● Percentage of documents dispatched to the Executive Board on time <p>Improved risk management</p> <ul style="list-style-type: none"> ● Percentage of internal and external audit recommendations pending implementation

* The key performance indicator is used in the Common Performance Assessment System.

37. These corporate management objectives and KPIs represent a first iteration, which will be reviewed and refined for improvement in the light of experience. They are a “work in progress”, particularly as some of the KPIs are dependent upon putting in place new management infrastructure and processes (such as quality assurance, cost benchmarking, and partner surveys). Once the system reaches full maturity, performance against almost all the corporate KPIs will be reported to management on a quarterly basis. In 2007, an update on the development of the system and a summary report on actual performance against corporate-level KPIs will be provided to the Board through the strategic priorities and programme of work paper to be submitted to its September 2007 session. Subsequently, KPI reporting to the Board will be integrated into the development effectiveness report (an Action Plan deliverable due by the end of 2007).

38. The corporate management objectives and KPIs for the operations areas are central to achieving the development effectiveness targets for 2009. The objectives for the non-operations areas are equally important. Increasing corporate efficiency will be a very urgent and practical necessity, involving improved productivity in regular administrative functions to permit shifts in resources towards direct services to Member States and borrowers. The commitment to cost containment and the process of cost review is among the corporate KPIs. Equally, the importance of human resources management and change dictates the presence of at least one KPI in the human resources area, just as improved leverage of internal and external financial resources requires prioritization and the development of appropriate performance yardsticks. A vital input to raising development effectiveness will be strengthening approaches to risk management. Channelling resources through national programmes and national institutions broadens the area over which IFAD has limited direct control: a systematic approach to risk management is a necessary corollary of its new approach to country operations and processes. Development of an adequate approach to risk management is itself a corporate KPI.

Focusing Operations throughout the Organization

39. The corporate management objectives and KPIs will be the points of reference against which department, divisional and individual workplans, performance monitoring systems and budgets will be aligned, and towards the achievement of which they must contribute. Setting critical targets and measuring and reporting on performance on a regular basis allow for frequent and regular dialogue on performance and on the actions required to achieve desired results, i.e. for proactive day-to-day management. Together, these elements will increase the results orientation of the annual programme of work and budget (an Action Plan deliverable for December 2007).

40. A new tool – the departmental and divisional management plans – will underpin the vertical coherence of IFAD’s strategic planning and performance management processes, and will strengthen managing for results at the divisional level. The main features of these plans will be to increase alignment with corporate objectives, sharpen prioritization of activities in terms of corporate objectives with consequent improvements in the allocation and usage of resources, and enhance performance measurement and management through KPIs. All departments and divisions will use the new management plan format in September 2006 to develop their plans for 2007.

41. Work is also under way to develop an information technology system to house the corporate planning and performance management system that will produce reports on KPIs at the divisional, department and corporate levels. Over time, this tool will be integrated with other systems currently running in IFAD to form a corporate management information system, leading to further efficiencies in the monitoring, management, and reporting of performance information.

42. Mainstreaming MfDR, with the new tools and processes, will be supported by cross-cutting initiatives including an effective MfDR communication campaign and training for staff at all levels. Implementation of an MfDR communication plan to ensure that staff are adequately aware,

engaged and constantly informed as MfDR initiatives unfold has already commenced, and will carry on throughout the Seventh Replenishment period, and possibly even beyond.

F. Key Tasks in 2007

Programme Management

43. Programme management is a central corporate contributor to achieving IFAD's results objectives. Its priorities are defined in the corporate KPIs and the programme of work: improving country programme design, project design, implementation support, and knowledge management and innovation; and expanding IFAD's project base in the areas of its maximum value added.

44. Central to achieving these objectives is implementation of major elements of the Action Plan, particularly with regard to introduction and implementation of RBCOSOPs, country programme management teams, and quality enhancement. Complementary to these are: developing regional frameworks to support the production of RBCOSOPs; improving implementation support for the existing portfolio; adopting a systematic approach to knowledge management; and engaging in policy dialogue and evidence-based advocacy.

45. All operational divisions will finalize their revisions of regional management strategies to focus on supporting the development of RBCOSOPs with emphasis on country ownership and leadership (as articulated through national poverty reduction strategies or their equivalent), together with policy dialogue and the Fund's active involvement in harmonization and alignment initiatives addressing, inter alia, the potential for replicating successful, tested approaches and innovations in line with the results framework.

46. IFAD will concentrate further on improving the quality (relevance, efficiency and effectiveness) of country programmes with an emphasis on achieving impact through: targeted use of implementation support (driven by the performance review process) and supervision resources; strategic use of grant resources; and a results-oriented country programme performance review process. Cooperating institutions will be encouraged to better address key issues identified in annual portfolio reviews, e.g. below-average disbursements, underperformance on achievement of RIMS targets, underperformance in monitoring and evaluation systems, underperformance on expected benefits, underperformance in programme management, and underperformance on gender mainstreaming.

47. RBCOSOPs will define the instruments and tools, as well as the partnerships, to foster innovation and knowledge management within country programmes. They will include: plans for intensive learning exercises throughout project implementation; greater coordination among regional programmes and broader participation of existing learning networks in operations partnerships to further innovation and knowledge-sharing; stronger internal capacity to serve clients in IFAD's strategic focus areas; and higher quality standards for project design and implementation through the establishment of formal and/or informal learning centres at the country and subregional levels.

48. The Field Presence Pilot Programme (FPPP) remains an important initiative and, by December 2007, six initiatives will have accumulated over three years of experience and eight will have at least two and half years. The FPPP will continue to play a pivotal role in promoting both country ownership and IFAD engagement in in-country donor forums. FPPP staff will play an increasingly active and assertive role in supporting the management of country programmes. Building on the conclusions of the Office of Evaluation and self-evaluations, this staff will also play a key role in convening the emerging country teams and representing IFAD in in-country donor coordination mechanisms.

Finance and Administration

49. IFAD's largest area of expenditure is on staff, so raising staff efficiency and matching it to requirements will be crucial factors in enhancing the Fund's development effectiveness. In addition to implementing the planned pay-for-performance scheme, the Fund will increase the percentage of staff meeting their competency requirements (and ensure the quality of competency development), and ensure that key positions are filled with a minimum of delay within an overall distribution of staff resources that reflects emerging operational priorities. Strategic shifts in the distribution of staff will reflect IFAD's long-term commitment to increasing the percentage of its resources directly supporting development operations.

50. The Fund will reduce further the percentage of audit recommendations pending implementation and ensure the full implementation of measures already put in place to ensure the quality and integrity of key administrative and resource management processes. As part of the move to extend the risk domain beyond assets to the achievement of results, IFAD will expand risk management from specific functional areas (such as finance and information technology) to the business planning and management of all units, and will report on progress as part of the planned development effectiveness report to the Executive Board (an Action Plan deliverable).

51. Within the finance and administration area itself, the Fund will benchmark its major internal business processes (including budget management and human resources management); fine-tune its automated system to further reduce staff time in the administration of transactions; and introduce client surveys for assessing the effectiveness of its direct client services. It will assess the feasibility of sharing selected back-office functions among the Rome-based United Nations agencies.

External Affairs

52. Close partnership with the governing bodies in policy development and performance management, stronger internal organization for policy development (in consultation with external partners), knowledge-sharing, policy outreach and dialogue, and strengthened resource mobilization to increase resources for support to country-level development processes are critical dimensions of IFAD's MfDR framework. To this end, the Fund will:

- (a) improve the quality, conciseness and timeliness of documents delivered to its governing bodies;
- (b) enhance the exchange of experience and knowledge with Member States, partners and the rural poverty eradication community through the integration and strengthening of communication and knowledge management, including the Rural Poverty Portal;
- (c) mobilize additional supplementary funding and special contributions (e.g. for the Debt Initiative for Heavily Indebted Poor Countries);
- (d) support institutional linkages with the private sector and foundations at the global level; and
- (e) implement a rigorous process of policy development reaching out to development partners and the organizations of rural poor people, particularly farmers' organizations and indigenous peoples.

G. Programme of Work for 2007

53. IFAD's principal instruments for reducing rural poverty are its loans and grants, and the MfDR approach is focused on ensuring that these instruments yield maximum impact. As part of

the Seventh Replenishment agreement, IFAD undertook to increase its loan and grant programme by 10% each year over the replenishment period, resource availability permitting. In addition, the Executive Board in December 2005 asked the Fund to ensure that the volume of assistance be increased under a number of projects compatible with its capacities and with resources available under the administrative budget and the PDFF.³ Pending further consideration on the adoption of a debt sustainability framework and any revision of IFAD's Policy on Grants deemed necessary by the Board in the light of such a framework, 10% of the programme of work would be allocated to funding grants.

54. Accordingly, the programme of work would be increased from US\$550 million in 2006 to US\$605 million in 2007. Pursuant to IFAD Policy for Grant Financing, commitments under the programme of work would be divided between loans (US\$544.5 million) and grants (US\$60.5 million). The projected resources available for commitment show that such an increase can be sustained in terms of liquidity (see annex I).

55. Consistent with the desire to halt the decline in average loan amounts and to contain the high costs associated with having a large number of loans with a low average value, the number of new operations planned for 2007 would be 34. This is equivalent to a 6.3% increase in the number of loans over 2006, compared with a 10% increase in total project lending. In the course of 2007, IFAD will set targets for project size, taking into account project cycle costs and the implications of increasing engagement in medium-term efforts to strengthen core rural poverty reduction programmes of Member States.

56. As noted by the Board in April 2006 during its discussion of the Performance-Based Allocation System (PBAS) and in line with the report of the Consultation on the Seventh Replenishment, implementation of the uniform system of allocation across the IFAD lending programme as a whole would become effective with the 2007 programme of work (i.e. the first year of the Seventh Replenishment period), and fixed regional allocations would no longer apply. It was also agreed that IFAD would continue to target at least the current share of resources to sub-Saharan Africa, provided that the performance of individual countries so warrants. Regional divisions are currently calibrating their proposed 2007 lending programmes in line with the revised PBAS parameters. The 34 countries identified so far and for which projects will be proposed respond to IFAD's strategic objectives, regional strategies and relevant country strategic opportunities papers. The indicative lending programme for 2007 is shown below in table 2:

³ EB 2005/86/C.R.P.1/Rev.1 (Programme of Work and Budget of IFAD and its Office of Evaluation for 2006).

TABLE 2: INDICATIVE LENDING PROGRAMME BY REGION FOR 2007

	Western and Central Africa	Eastern and Southern Africa	Asia and the Pacific	Latin America and the Caribbean	Near East and North Africa	Total
Indicative country list (gross programme)	<ul style="list-style-type: none"> ▪ Cameroon ▪ Gabon ▪ Ghana ▪ Guinea ▪ Guinea Bissau ▪ Nigeria ▪ Sierra Leone 	<ul style="list-style-type: none"> • Angola • Burundi • Ethiopia • Kenya • Lesotho • Uganda 	<ul style="list-style-type: none"> ▪ Bangladesh ▪ Cambodia ▪ China ▪ India ▪ Indonesia ▪ Maldives ▪ Nepal ▪ Pakistan ▪ Philippines 	<ul style="list-style-type: none"> ▪ Belize ▪ Dominican Republic ▪ Jamaica ▪ Nicaragua ▪ Peru ▪ Venezuela (Bolivarian Republic of) 	<ul style="list-style-type: none"> ▪ Armenia ▪ Georgia ▪ Lebanon ▪ Morocco ▪ Syrian Arab Republic ▪ Yemen 	34
Reserve projects	<ul style="list-style-type: none"> ▪ Burkina Faso 	<ul style="list-style-type: none"> ▪ Comoros ▪ Madagascar ▪ Mauritius 	<ul style="list-style-type: none"> ▪ Kyrgyzstan ▪ Tajikistan ▪ Viet Nam 	<ul style="list-style-type: none"> ▪ Bolivia ▪ Costa Rica ▪ Ecuador ▪ Honduras ▪ Mexico ▪ Panama 	<ul style="list-style-type: none"> ▪ Azerbaijan 	14

H. Administrative Budget and PDFF in 2005 and 2006

57. In delivering the 2005 programme of work, the Fund incurred actual expenditure (in nominal terms) for programme development and administrative expenses of US\$29 million and US\$56.5 million respectively, representing a total cost increase of 8% over 2004. This increased expenditure supported an 8.2% increase in the programme of work and a very healthy increase in disbursements of 10.4%. Overall budget utilization rose from 94% in 2004 to 98% in 2005, as a result of regular reviews by senior management and reallocation of funds under the administrative budget and the PDFF alike.

58. The 2006 programme of work and budget made provision for a programme of work of US\$550 million for planning purposes (comprising a lending programme of US\$495 million and a gross grant programme of US\$55 million), for an expected 32 operations. The approved administrative budget was US\$61.1 million plus US\$0.4 million to cover one-time costs. The amount approved for the PDFF was US\$30.4 million.

59. In the area of human resources management, the Fund follows the United Nations common system. A critical factor in management of the 2006 administrative budget is the recommendation by the International Civil Service Commission (ICSC) that the salaries of General Service staff at the Rome-based agencies should be increased by 12.1% retroactive to 1 November 2005. IFAD and the other two Rome-based United Nations organizations have traditionally followed such recommendations in the past. However, this increase is considerably greater than the provisions made in the 2006 administrative budget, and amounts to a total cost to IFAD of US\$4.3 million (US\$1.4 million for 2005 and US\$2.9 million for 2006). Naturally, the latter amount, which has increased the staff cost base for 2006 (see table 3 below), must be reflected in the cost of salaries in 2007 and beyond.

TABLE 3: IMPACT OF ICSC RECOMMENDATION ON 2006 BASE COSTS
(millions of U.S. dollars)

	Approved	ICSC- recommended Increase	2.5% Increase Included in Approved Budget	With ICSC Increase
Administrative budget	61.1	2.7	-0.9	62.9
PDFF	30.4	0.2	-	30.6
Total administrative costs	91.5	2.9	-0.9	93.5

60. The accounts for 2005 are closed, and there is thus no possibility to use the 2005 budget to cover the cost of the increase for 2005. Consequently, it is proposed that the Governing Council authorize IFAD to make an extraordinary expenditure of US\$1.4 million to cover the cost of the increase for 2005. A separate document is being presented to the Executive Board on the topic.

61. The Fund will absorb the increased cost for 2006 within its authorized budget for 2006 (including provisions made for an ICSC increase for General Service staff) and the use of accruals in excess of the cost of the settlement of outstanding billing in the second Quarter of 2006 (see table 4 below).

**TABLE 4: MANAGEMENT OF STAFF COST INCREASE STEMMING FROM
ICSC RECOMMENDATION**
(millions of U.S. dollars)

	Relating to 2005	Relating to 2006		Total
		Absorbed in Budget	Absorbed by Unused Accruals	
Administrative budget	1.4	0.9	1.8	4.1
PDFF			0.2	0.2
Total	1.4	0.9	2.0	4.3

62. The absorption within the 2006 budget and the establishment of a prudent margin for the management of staff costs in a situation where there is always a certain variation between actual and estimated costs will include several measures, namely:

- (a) use of provisions made in the 2006 administrative budget for staff cost increases;
- (b) savings from the temporary freezing of new staff commitments; and
- (c) restriction of the scope of the staff promotion exercise in 2006.

63. The Fund's staff costs will be managed proactively to ensure that its development effectiveness is not compromised and that undertakings relative to benchmark ratios are strictly observed. In this regard, and bearing in mind the priority of focusing resources on its comparative advantage, IFAD will develop and implement a medium-term strategy for managing staff costs that will build on the findings of the ongoing workload survey taking into account staff requirements in the light of process benchmarking and a careful review of the composition and balance of its service lines, and opportunities for savings arising from active exploration of the

benefits and viability of establishing common services among the Rome-based United Nations agencies.

I. Proposed Administrative Budget and PDFF for 2007

64. During the December 2005 Executive Board discussion of the programme of work and budget for 2006, and subsequently in the Seventh Replenishment negotiations, it was agreed that IFAD should seek to manage its budget within the context of ratios and benchmarks setting the medium-term budget framework. With regard to the total cost envelope, it was agreed that IFAD's administrative costs ratio should be capped at 17.1% of the annual programme of work net of transfers⁴ to the PDFF and that IFAD should seek to reduce that ratio in future budgets as part of its commitment to raise organizational efficiency.

65. It was further suggested that the Fund should seek to:

- (a) ensure that expenditure on programme development and support grows faster than any increase in expenditure on administrative services;
- (b) contain growth of the administrative budget while taking into account the service needs of an expanding programme of work, and – for the 2007 budget – seek zero real growth⁵ in the administrative budget in recognition of the positive response to administrative budget requirements in the 2006 programme of work and budget; and
- (c) contain the growth of expenditures by allowing the programme of work to increase at a faster pace than the increase in the number of new projects submitted for approval (i.e. average project size should be allowed to increase). As indicated above, the planned programme of work for 2007 incorporates this suggestion by limiting the growth in the number of new projects (6.3%) to a level lower than the increase in the programme of work (10%). In addition, the number of projects under implementation will be stabilized at the level that the portfolio is expected to be as at 31 December 2006, i.e. 235.

66. Consistent with the undertaking that the administrative costs ratio should not exceed 17.1%, it is proposed that the ratio between IFAD's annual expenditures and the programme of work in

⁴ EB 2005/86/C.R.P.1/Rev.1, Programme of Work and Budget of IFAD and its Office of Evaluation for 2006.

⁵ At IFAD, as at other international financial institutions, zero real growth is defined in terms of a deflator relative to nominal values combining estimated general inflation and estimated increases in staff salaries, driven in IFAD's case by the recommendations of the ICSC. The Asian Development Bank uses a three-tier system. Its price increase consists of: (i) the overall pay increase, including increases in the Bank's contribution to the staff retirement plan; (ii) an exchange rate deflator (United States dollar against the Philippine peso); and (iii) a combination of the consumer price index of both the Philippines and the United States of America. The International Monetary Fund uses a weighted index with three components: (i) the local consumer price index (Washington, D.C.) for non-staff costs other than travel (building, maintenance, etc.); (ii) a separate inflator for travel costs, obtained from industry sources; and (iii) a staff cost inflator for salary increases based on a survey conducted by an outside consultant. The World Bank uses a 90/10 mix for non-staff costs of the national (United States of America) consumer price index (90%) and the inflation indicator for advanced economies (10%) and a weighted salary inflator for staff costs. The World Bank does not use a separate inflator for field office costs. At the Inter-American Development Bank, the inflator is a weighted index of the salary scale movement (looking at the World Bank and International Monetary Fund movements) and non-personnel costs at the expected consumer price index for the budget's fiscal year. The Council of Europe Development Bank uses: (i) for payroll expenses, a "statutory" increase (including, inter alia, automatic step increments, and a fixed management margin for upgrading; and (ii) the French inflation rate for operating expenses.

2007 be 16.8%, for a total (administrative budget and PDFF combined) of US\$99.1 million.⁶ This compares with a budgeted 17.1% in 2005 and in 2006, and incorporates the normal annual efficiency gains for service sector activities (see table 5).

TABLE 5: PROPOSED ADMINISTRATIVE COST RATIO FOR 2007
(millions of U.S. dollars)

Administrative Budget	PDFF	Total Administrative Costs	Programme of Work	Transfer to PDFF	Programme of Work Net of Transfer	Administrative Costs as a Ratio of the Programme of Work
65.42	33.68	99.1	605	15.13	589.87	16.8%

Administrative Budget

67. Delivering the improved quantitative and qualitative improvements that lie at the heart of IFAD's results-based workplan for 2007 will require significant increases in resources applied to new areas of work, and increased demands for inputs in existing areas to support the expanded programme of work. Building on the workload survey under way in 2006, the process benchmarking under way in 2006 and planned for 2007, intensive staff training for deployment against new tasks, and further capitalization on investments made in information technology, these increases in priority activities will be financed through the increased internal efficiency, prioritization and resource alignment that are among the key dimensions of results-based management. **Correspondingly, and in accordance with the suggested approach to administrative costs, a zero real growth policy would be applied to the administrative budget in 2007.**

68. The total administrative budget proposed for 2007 is, therefore, US\$65.42 million (see table 6 below). This would imply a 4% **nominal** increase over the administrative budget (excluding one-time costs) for 2006, restated for the purposes of comparison to reflect the increase in 2006 base costs (see table 3) consequent to the ICSC recommendation, which covers the entire year of 2006. This nominal increase represents **zero real growth** within the definition commonly accepted in international financial institution budgeting, whereby non-staff costs are increased by the (local) rate of inflation and staff costs are increased in accordance with a relevant inflator.

TABLE 6: COMPARISON OF RESTATED ADMINISTRATIVE BUDGET FOR 2006 WITH PROPOSED BUDGET FOR 2007
(millions of U.S. dollars)

2006 ^a	2007	Nominal Percentage Increase	Real Percentage Increase
62.9	65.42	4.0%	0.0%

^a See table 3.

⁶ Subject to the finalization of estimates for the costs relating to the After-Service Medical Coverage Scheme.

Programme Development Financing Facility

69. The administrative budget finances activities in programme management, finance and administration, external affairs and the Office of the President and the Vice-President. The PDFF exclusively finances project and programme development and implementation support.

70. Consistent with the increased number and value of projects to be submitted for approval by the Executive Board, the planned increase in implementation support to raise portfolio performance, the investment necessary to raise the quality of IFAD's field-level operations, and the desire to increase the resources committed to front-line development services to members, while also remaining within the overall administrative costs ratio of 16.8%, it is proposed that the PDFF would increase by 10.1% – to US\$33.68 million (see tables 7 and 8). This increase would support the 6.3% increase in the number of projects (and the 10% increase in the value of loans and grants), but priority would be given to strengthening the results of the 233 IFAD projects already approved, for a total IFAD financing value of US\$3.7 billion (and a total project financing value, including cofinancing, of US\$8.0 billion).

TABLE 7: COMPARISON OF RESTATED PDFF FOR 2006 WITH PROPOSED PDFF FOR 2007
(millions of U.S. dollars)

2006 ^a	2007	Nominal Percentage Increase	Real Percentage Increase
30.6	33.68	10.1%	6.1%

^a See table 3.

TABLE 8: OVERVIEW OF PROPOSED CHANGES IN THE PROGRAMME OF WORK AND BUDGET FOR 2007 COMPARED WITH 2006

	Percentage Change
Programme of work	+10%
Administrative costs ratio	-2%
Nominal increase in the PDFF	+10%
Nominal increase in the administrative budget	+4% ^a

^a Zero real growth.

71. Combining the PDFF with that part of the administrative budget managed by the Programme Management Department, IFAD's total proposed annual expenditure on activities directly related to developing and implementing the programme of work amounts to 51% of total proposed administrative costs (the Fund is consulting with other international financial institutions on their definitions of operational costs to enable it to develop a comparable figure on the overall ratio between operational and other costs).

J. Risk Management

72. The Fund has made significant progress in establishing procedures to manage financial and reputational risk, such as: issuing a new staff code of conduct; strengthening oversight capacities to investigate irregular practices; revising the Headquarters Procurement Guidelines to include provisions for avoiding conflicts of interest; constructing an asset liability model to identify, understand and manage financial risk; and rigorously requiring the observance of project audit

requirements. Physical security arrangements have been strengthened, as have provisions for data safe-guarding and recovery; and an overall business continuity plan is in preparation.

73. The key risk for a development institution is the failure to efficiently achieve adequate development results. The Fund's independent Office of Evaluation plays a key role in evaluating results, and real-time reporting on project achievements is being constantly improved through the strengthening of the RIMS system, the project status reporting system, and project monitoring and evaluation systems. The quality of IFAD's operations is a decisive factor in achieving results. In addition to improvements in internal quality review processes, an arm's-length quality review process is under development that will address both project quality at entry and the quality of IFAD's engagement in project supervision. Improved impact and quality of operations lie at the heart of the MfDR system being introduced in 2007, and the new operating model under the Action Plan addresses the substantive processes and resources that IFAD will employ to focus country programmes and projects on measurable results and to feed-back progress for proactive management.

74. In the area of development results, the Fund's emphasis will be on risk management rather than risk avoidance. IFAD's role in exploring innovation inevitably exposes it to the risk of failure, and this must be considered an inevitable cost adhering to the role itself. The major challenge, therefore, is the identification of risk and the mobilization of measures to manage it, including full use of lessons learned. Risk assessment and mitigation strategies are mandatory elements of the new divisional and departmental management plans that will underpin operations in 2007. They will also be elements of country programme management plans. Analysis of those risks and provisions made to counter them will be an important part of the report on IFAD's development effectiveness, scheduled for 2007.

PART II – STRATEGIC PRIORITIES AND PROGRAMME OF WORK AND BUDGET FOR 2007 OF IFAD'S OFFICE OF EVALUATION

A. Background

75. This portion of the paper will be discussed by the Executive Board during its consideration of the strategic priorities and programme of work and budget of IFAD and its Office of Evaluation. The Chairman of the Evaluation Committee – following established practice – will subsequently prepare a written report summarizing the Committee's deliberations and recommendations for consideration by the Board.

76. After receiving comments from the Committee and based on the guidance and comments provided by the Board, the Office of Evaluation (OE) will prepare its work programme and budget proposal for 2007 for discussion by the Evaluation Committee at its next session, to be held on 10 October 2006. With further, subsequent guidance from the Committee, OE will then prepare its final work programme and budget proposal for 2007 for discussion at the December 2006 session of the Board. As decided by the Board, the final proposal will first be considered by the Audit Committee in November 2006 together with IFAD's programme of work and budget for 2007.

B. Summary of the 2007 Preview

77. Over the past few years, OE has introduced a number of internal changes and processes that have resulted in efficiency gains, allowing OE to gradually undertake more higher-plane

evaluations.⁷ However, over the years and more so in 2007, this shift towards higher-plane evaluations has intensified and caused a structural change in OE's work programme, thus leading to an increase in the overall workload and costs that can no longer be managed by the financial and human resources presently available to the Office. In addition, OE proposes to undertake a joint evaluation in 2007 with the African Development Bank (AfDB) on agriculture and rural development policies and operations in Africa. This evaluation is a special opportunity to strengthen the partnership with AfDB. However, the evaluation, which represents a one-time exceptional activity, will have a considerable impact on the size of OE's work programme and budget next year. As a result, OE will require an overall increase of US\$1.3 million in the 2007 budget to accommodate in particular the joint evaluation with the AfDB, which is estimated to cost around US\$800,000 as well as increases in staff costs. The latter are caused by increases in standard costs (around US\$286,000) and by an increase in human resources required for the implementation of the 2007 work programme, including a greater number of higher-plane evaluations (for an additional cost of around US\$384,000).

C. Achievements in 2006

78. OE had four main priorities for 2006: (a) undertake 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 the Evaluation Committee; (c) evaluation outreach and partnerships; and (d) methodological development. Overall, OE has been able to implement the activities planned under the four established priorities. The specific achievements against the priority areas are listed in annex II.

79. The five planned corporate-level evaluations are on track. The report on the evaluation of IFAD's Rural Finance Policy is currently being prepared and the evaluation will be finalized on schedule in October. Secondly, an inception report on the evaluation of IFAD's Field Presence Pilot Programme was prepared. Field work will start in the last quarter of 2006.

80. OE completed the evaluation of the Regional Strategy in Asia and the Pacific region (EVEREST). The EVEREST evaluation highlighted the importance for IFAD of developing a new regional strategy based on the experiences of the past. It also found that portfolio performance and impact were good in the region, but IFAD's performance in policy dialogue, partnership-building and donor coordination had generally been weak during the evaluation period (1996-2005). Lastly, OE has initiated the evaluation of IFAD's strategy in the Near East and North Africa region, which will be completed in 2007.

81. In December 2005, when approving IFAD's Action Plan for Improving its Development Effectiveness, the Board requested OE to undertake an evaluation of the Action Plan. At the Board's April 2006 session, it asked the Evaluation Committee to discuss the topic in more detail during the Committee's forty-fourth session and revert to the Board with a recommendation.

82. As per plan, OE completed the Mali country programme evaluation (CPE) and launched the one for Morocco. The Mali CPE found that IFAD's recent strategy had evolved by adjusting project design to take into account the ongoing decentralization process. However, among other issues, the evaluation noted problems of limited integration of components and dispersion of activities over large areas in selected programmes. Preparatory work for the Morocco CPE has been accomplished, and the main evaluation mission will be fielded in the last quarter of the year.

⁷ Such evaluations include corporate-level, regional strategy, thematic and country programme evaluations. Project evaluations are not considered higher-plane evaluations.

83. A preparatory mission to Brazil will be organized shortly to prepare the approach paper for this CPE. As agreed at the Evaluation Committee's forty-third session, the Ethiopia and Nigeria CPEs will commence in early 2007, rather than in the last quarter of 2006, to free up the necessary OE human resources to begin the evaluation of the Action Plan this year. Finally, OE has completed four and is working on another six project evaluations in the five IFAD regions.

84. Pursuant to the terms of reference and rules of procedure of the Evaluation Committee,⁸ OE reviewed and commented on the portfolio performance report prepared by management. The document was discussed by both the Evaluation Committee and the Executive Board in April 2006. Likewise, OE reviewed and commented on the President's report on the implementation status of evaluation recommendations and management actions (the PRISMA report), which will be discussed by both the Evaluation Committee and Executive Board in September.

85. Work on the production of OE's comprehensive evaluation manual is progressing, and should be completed by the end of 2006. Among other aspects, the new CPE methodology also enables OE to assess the performance and attribute ratings to individual projects in a given country. An enhanced internal quality assurance system consisting of internal peer reviews as well as external senior advisors has been introduced to ensure that OE evaluations adhere to the required methodologies and generate the expected high quality of deliverables.

86. The work towards the preparation of this year's annual report on the results and impact of IFAD operations (the ARRI report) is in an advanced stage. The document will be discussed by the Evaluation Committee in October and by the Executive Board in December; for the first time, it will include a target mean score for benchmarking purposes to illustrate how such a target rate can be used to track and improve performance.

87. In April 2006, OE and the Programme Management Department signed an agreement on the harmonization of self-evaluation and independent evaluation systems at IFAD. The agreement was in response to a number of requests from the Evaluation Committee and Executive Board in the past for the Programme Management Department and OE to use the same evaluation criteria and ratings systems to ensure that self-evaluation and independent evaluation generate comparable information.

88. OE organized, as planned, a session of the Evaluation Committee in April.⁹ In addition, it organized the Evaluation Committee's annual field visit in March 2006 (to Mexico) in connection with the Mexico CPE. A total of 12 Executive Board Directors participated in this visit. The Chairman of the Evaluation Committee presented a report on the field visit to the Board in April 2006.

D. Taking Stock of 2006

89. Before defining its priority areas, work programme and resource requirements for 2007, OE reviewed experience in implementing its 2006 work programme and budget.

90. One of the most important points emerging from the stock-taking exercise was the fundamental importance of the need to thoroughly plan each evaluation exercise. Although there have been some concrete improvements in this area (such as outlining in specific detail all key phases and major steps at the outset of each evaluation), more can be done. In this regard, one specific concern is the preparation of the timetable for the major steps and deliverables in the evaluation process, including the need to build in adequate time for partners to review and

⁸ Approved by the Board in December 2004.

⁹ In total, four sessions are planned in 2006: in April, September, October and December.

comment on the various evaluation deliverables. For this purpose, OE has acquired the Microsoft Project software to support its evaluation planning, implementation and monitoring capabilities.

91. Adopting a good practice introduced as part of the Independent External Evaluation of IFAD, OE introduced the notion of preparing “audit trails” for key evaluations. This requires that OE produce a written response to the various comments made by key stakeholders on draft evaluation deliverables that are disclosed for review. Evaluation partners have appreciated the introduction of audit trails, which enhance transparency in addressing the comments provided by partners and improve overall communication during the evaluation.

92. The whole issue of workload, overtime work and stress continue to be areas of concern to OE staff, an issue which has also been raised repeatedly by the Evaluation Committee and the Executive Board in the past.¹⁰ In this regard, OE has started a detailed workload analysis, which will be completed shortly. This analysis will serve as the basis for preparing the final OE proposal for its 2007 work programme and budget.

93. Lastly, an area where more improvements are required is the management of consultants. This is also an area that significantly affects the overall quality of OE’s work. Progress has been made in such areas as estimating the level of efforts, identifying necessary skills and competencies, and preparing and evaluating options, but more needs to be done, in particular concerning contracting and implementation management.

E. OE Priorities for 2007

94. The Office has four priorities for 2007. These take into consideration the need to satisfy the requirements of the Evaluation Policy and the terms of reference and rules of procedure of the Evaluation Committee, while at the same time maintaining alignment with the concerned institutional priorities for 2007.¹¹ These four main priority areas are:

- (a) undertake selected corporate-level, regional strategy, country programme, thematic and project evaluations;
- (b) specific evaluation work required by the Evaluation Policy and the terms of reference of the Evaluation Committee;
- (c) evaluation outreach and partnerships; and
- (d) evaluation methodology development.

95. Priority area (a) represents the core of OE’s work programme, in terms of both the number of activities and the human and financial resources devoted to such tasks. Under this priority, OE will complete a number of evaluations that it initiated in 2006, such as the evaluation of the IFAD Action Plan,¹² according to the overall approach discussed with the Evaluation Committee and the Executive Board. Likewise, the corporate-level evaluation of the Field Presence Pilot Programme will be finalized and discussed by the Executive Board in September 2007. OE will also complete the evaluation of IFAD’s regional strategy for the Near East and North Africa.

96. OE will commence three new corporate-level evaluations in 2007. These are: (i) the joint evaluation with the AfDB of both institutions’ agriculture and rural development strategies and operations in Africa; (ii) the evaluation of IFAD’s performance and impact in promoting

¹⁰ See paragraph 90 of document GC 29/L.6 (Programme of Work and Administrative Budget of IFAD and of its Office of Evaluation for 2006).

¹¹ See annex III to GC 29/L.6.

¹² This evaluation was requested by the Executive Board (EB 2005/86/C.R.P.2/Rev.1).

replicable innovative approaches to rural poverty reduction;¹³ and (iii) the evaluation of IFAD's subregional strategy in Meso-America. All three evaluations, in particular the proposed joint evaluation in Africa, will be of exceptional complexity and comprehensive scope, requiring a commensurate level of both financial and human resources.

97. The President of the African Development Bank took the initiative to approach IFAD for support in conducting a collaborative evaluation of agriculture and rural development in Africa. Following this, meetings were held with the AfDB Operations Evaluation Department to explore opportunities for undertaking a joint evaluation on the two organizations' policies and operations in agriculture and rural development. This would be the first such joint evaluation undertaken by OE,¹⁴ and there is thus adequate justification for proceeding with some degree of prudence. The aim of the joint evaluation would be to evaluate the performance and impact of both organizations' policies and operations in Africa, and to develop findings and recommendations that would serve as building blocks to formulate new strategies to address the challenges faced by the continent in agriculture and rural development. The importance and broad scope of the evaluation is reflected inter alia by the estimated total volume of investments – approximately US\$17 billion – made by AfDB and IFAD in Africa in the past. Clearly, a rigorous analysis of such an impressive scope would dramatically enhance the credibility and visibility of the evaluation findings and recommendations. The evaluation would also contribute more broadly towards strengthening partnership and cooperation between IFAD and AfDB. Moreover, with the undertaking of this evaluation, as well as the completion of the evaluation of IFAD's regional strategy in the Near East and North Africa region, IFAD will eventually acquire a comprehensive understanding of its strategies and operations in Africa as a whole, thus providing the building blocks for defining the Fund's overall cooperation in this continent in the future.

98. This proposed joint evaluation, which can be considered an exceptional one-time event, will have a noticeable impact on the overall size of OE's annual work programme and budget in 2007. In fact, given its objectives and scope, the evaluation is likely to absorb a significant amount of OE time and resources. It will also require a commensurate amount of time, resources and attention by IFAD management, in particular the concerned regional divisions. In fact, this evaluation is comparable to the evaluations of IFAD's regional strategies in the Eastern and Southern Africa and the Western and Central Africa regions. It would also entail an assessment of the performance of partnerships among key institutions (e.g. AfDB, IFAD and the World Bank) in the field of agriculture and rural development.

99. Furthermore, this evaluation would provide IFAD the opportunity to respond to the demand for joint evaluations and acquire experience in this area. On this issue, it is worth noting that there is an increasing call within the United Nations,¹⁵ among the multilateral development banks¹⁶ and by the Development Assistance Committee of the Organisation for Economic Co-operation and Development¹⁷ for undertaking joint evaluations. Such a joint evaluation would also contribute to advancing the objectives of the Paris Declaration on Aid Effectiveness. However, it is to be underlined that, while there are clear benefits to conducting joint evaluations,¹⁸ there are also

¹³ This evaluation was requested by the Executive Board (EB 2004/83/R.2 and GC 29/L.6).

¹⁴ In the case of AfDB, the evaluation will limit its assessment to the agriculture and rural sector.

¹⁵ As stated in the Standards for Evaluation in the United Nations System prepared by the United Nations Evaluation Group dated April 2005, and the recent joint statement on evaluation of the heads of United Nations agencies and programmes to the General Assembly.

¹⁶ Refer to the Principles of the Evaluation Cooperation Group of the Multilateral Development Banks.

¹⁷ See "Guidance for Conducting Effective Joint Evaluations", issued by the Network on Development Evaluation of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development in February 2006.

¹⁸ Such as a broader scope of evaluation, reduction of transaction costs for developing countries, mutual learning, etc.

some additional costs and challenges that need to be met.¹⁹ These are some of the main reasons why a prudent decision process is warranted, which will entail the production firstly of a joint approach paper on the evaluation that will clearly demonstrate the feasibility for undertaking the evaluation jointly and include a proposal to mitigate its risks. Thereafter, the Executive Board will be requested to approve the undertaking of the joint evaluation in December 2006 when considering OE's 2007 work programme.

100. Building upon the results of a previous OE evaluation in 2001-2002 on a similar topic, OE will commence, at the end of 2007, the corporate-level evaluation of IFAD's performance and impact in promoting replicable innovative approaches to rural poverty reduction. As requested by the Board, this evaluation will include an assessment of the Initiative for Mainstreaming Innovation (IMI) approved by the Board in December 2004. It is useful to note that close cooperation will be sought in this evaluation with the Global Environment Facility (GEF) and the International Development Research Centre (IDRC), which are planning to undertake, more or less at the same time, an evaluation on their own institutions' catalytic role. This will provide a useful opportunity for IFAD to exchange information with them on methodological issues, evaluation approach, lessons learned and, ultimately, on the most effective ways to promote a catalytic role.

101. The Latin America and the Caribbean Division of IFAD requested an evaluation in 2007 of the Fund's subregional strategy in Meso-America as a key step in the development of IFAD's new strategy for the Latin America and the Caribbean region. This will be a major evaluation covering IFAD's strategy and operations in seven countries of the region.

102. Furthermore, OE will finalize the country programme evaluations of Brazil, Ethiopia, Morocco and Nigeria, which the Board has already decided for OE to undertake as part of its 2006 work programme. Two new country programme evaluations are planned in 2007: Pakistan and the Sudan. These evaluations are important, not only given the size of IFAD investments in the countries, but also because OE has not undertaken any project or country programme evaluation in either of these countries since the mid-1990s. Finally, OE will complete the two project evaluations started in the second half of 2006 and will commence four new project evaluations.

103. The exact number and types of evaluations to be conducted by OE in 2007 will be determined by a review of actual progress in implementation of the 2006 OE work programme that will be undertaken in September-October 2006 and other considerations that may arise at the time. Also, OE will need to include in its 2007 work programme the various evaluations that the Board has decided for OE to undertake,²⁰ such as the evaluations of the IMI and the Action Plan.

104. Under priority area (b), OE will prepare the ARRI report and present it to the Evaluation Committee and Executive Board in December 2007. Future ARRI reports will draw upon the ratings generated through both the OE project evaluations and the CPEs, as the latter in future will include ratings of individual projects in the corresponding country as well.

105. Following the harmonization agreement between the Programme Management Department and OE, starting from December 2006 onwards, management will present the portfolio performance report to the Board at its December session as well. This report will include IFAD

¹⁹ In this regard, a recent DAC study ("Guidance for Conducting Effective Joint Evaluations", February 2006) highlighted that joint evaluations are not cheap, as transaction costs between evaluation units tend to be high; there is a need for greater lead time for planning the evaluation, coordinating schedules and field work; and an agreement needs to be reached up front on the methodology and reporting formats.

²⁰ See table 10 in the Programme of Work and Administrative Budget of IFAD and of its Office of Evaluation for 2006, document GC 29/L.6.

management's response to the issues and recommendations raised by the ARRI report, thus providing the Board with an opportunity to see how and to what extent the concerns and recommendations raised in the ARRI report are dealt with by IFAD management.

106. In addition, OE will prepare next year its 2008 work programme and budget, and present it to the Evaluation Committee and Executive Board for consideration, as per established practices and within the agreed time frames.

107. Pursuant to the terms of reference of the Evaluation Committee, OE will organize four sessions of the Committee in 2007 and any special sessions considered necessary by the Chairperson.²¹ In addition to discussing selected OE evaluations, as in the past, the Committee will discuss the portfolio performance report, the PRISMA report and any policy proposal in 2007 arising from evaluation lessons and recommendations, including OE comments, before the same are discussed in the Board. OE will also organize a country visit for the Evaluation Committee in connection with a major evaluation event.

108. With regard to priority area (c), OE will continue its efforts to ensure that communication and dissemination aspects are incorporated in each evaluation at the outset of the process. Particular attention will be devoted to ensuring that evaluation results and lessons learned are shared with partners in developing countries. Workshops, in particular at the end of higher-plane evaluations, will continue to be an instrument for drawing attention to issues and sharing knowledge emerging from evaluations. In addition, the present practice of disseminating printed copies of evaluation reports as well as profiles and insights to Executive Board Directors and others, as well as the continuous updating of the Evaluation Knowledge System,²² will be maintained.

109. In terms of partnerships, OE will continue to actively participate in the discussions of the United Nations Evaluation Group and the International Development Evaluation Association. It will also take part in selected international and regional conferences and workshops on evaluations and related themes. Moreover, OE will keep abreast of the developments in relation to the ongoing United Nations reform process, and within this context, contribute in particular to the thinking on the development of a wider independent evaluation function for the United Nations system.

110. In priority area (d), OE will continue to exercise thorough oversight to ensure that its evaluation methodologies are applied consistently across all evaluations. Quality assurance mechanisms for reviewing evaluation deliverables will also be an important feature of OE's work in 2007. Peer reviews for key evaluations will be continued as an instrument for quality assurance and learning among staff. OE will contribute to the further harmonization of the self-evaluation and independent evaluation systems in line with the agreement signed this year by the Programme Management Department and OE.

F. Resource Issues

111. As discussed with the Evaluation Committee and Executive Board²³ in the past, it is worth recalling that OE's overall annual administrative budget may fluctuate from year to year in order to effectively meet the evolving requirements of its evaluation work programme. Additional (or

²¹ Given the heavy agenda of the Committee in the recent past, most of the sessions next year are expected to last a full rather than just half a day.

²² This may be accessed through the IFAD website.

²³ See, for example, paragraph 122 of document GC27/L.4 (Programme of Work and Administrative Budget of IFAD and its Office of Evaluation for 2004).

fewer) resources may be required in a given year as compared with the previous year to respond adequately to the provisions laid out in the Evaluation Policy and in the terms of reference and rules of procedure of the Evaluation Committee. However, it is also recognized that it would be inappropriate to allow for overly large fluctuations from year to year in the OE annual work programme and budget, which would necessitate, *inter alia*, dealing with the laborious requirements of hiring or streamlining of human resources after each fluctuation. Another reason why overly large fluctuations should be avoided is that a sudden increase in the work programme will cause a further burden on IFAD management, the Evaluation Committee and the Executive Board, which would be expected to engage in even more evaluations done by OE.

112. In the light of the foregoing and as requested by the Board in the past, OE adopted the notion of a “sustainable work programme” consisting of around 10 project evaluations and 5-6 higher-plane evaluations, in addition to fulfilling the requirements of the Evaluation Policy and the revised terms of reference and rules of procedure of the Evaluation Committee. OE has implemented such a work programme with 8.5 Professional staff members (including the Director of OE) and 9.5 General Service staff.

113. The 2007 work programme will experience a major structural change with a marked shift towards higher-plane evaluations,²⁴ a trend that commenced more or less five years ago. There are three main causes why the 2007 work programme will include an unprecedented number of higher-plane evaluations: (i) an increased number of past requests by the Board to undertake corporate-level evaluations;²⁵ (ii) high demand for evaluations of regional or subregional strategies, which provide essential building blocks for the preparation of new regional strategies in the light of the new IFAD strategic framework, which is currently being prepared; and (iii) the increasing importance and relevance of country programme evaluations, in particular given the greater emphasis on IFAD country programmes within the framework of the new operating model.

114. More specifically, the OE work programme, on average, in the past included the undertaking of around five to six (or 5.6 in full-time equivalent terms)²⁶ higher-plane evaluations per year. In contrast, OE plans to work on 13 higher-plane evaluations in 2007 (or 8.7 in full-time equivalent terms). As can be seen in table 9, part of this unprecedented number of higher-plane evaluations were already decided by the Board in the past, including when approving the 2006 OE work programme. However, a number of higher-plane evaluations are new. As mentioned before, as a one-time exceptional activity under the 2007 work programme, OE would undertake the joint evaluation with AfDB of agriculture and rural development policies and operations in Africa. Given the intense amount of work involved in designing and implementing this joint evaluation, it is likely to absorb OE staff time and overall resources well above those – in fact at least double – required for other higher-plane evaluations conducted by OE in the past.

²⁴ The trend towards higher-plane evaluations is also very much consistent with the trend at other United Nations organizations and international financial institutions. It is generally acknowledged that higher-plane evaluations are more cost-effective since they offer opportunities, *inter alia*, to generate learning on wider systemic and policy issues that can have a much broader impact in improving organizational performance and development results.

²⁵ Including the Field Presence Pilot Programme, IFAD’s Action Plan, IMI, sector-wide approaches and the Private Sector Development and Partnership Strategy.

²⁶ Given that many evaluations start in a particular year and are completed in the following year, this figure represents the percentage of time that OE will devote to the corresponding evaluations in any given year.

TABLE 9: HIGHER-PLANE EVALUATIONS CONDUCTED BY OE, 2005-2007
(expressed in full-time equivalents)

<u>Type of Evaluation</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Corporate-level evaluations</u>	2.25	3.1	4.6
1. Rural Finance Policy			0.2
2. Field Presence Pilot Programme			0.5
3. Regional strategy for the Near East and North Africa region			0.2
4. IFAD's Action Plan			0.2
5. Joint Evaluation with AfDB*			2.0**
6. Subregional strategy for the Latin America and the Caribbean region*			0.5
7. IMI*			0.3
<u>Country programme evaluations</u>	3.75	2.5	4.1
8. Brazil			0.8
9. Ethiopia			0.7
10. Morocco			0.2
11. Nigeria			0.7
12. Pakistan*			1.0
13. Sudan*			0.7
Total	6.0	5.6	8.0

* These are new evaluations.

** The joint evaluation on agriculture and rural development in Africa is expected to require a level of effort that is at least double that of a typical corporate-level evaluation.

115. In the past, OE was mostly able to absorb the consequences of this structural change as well as the new tasks required by the Evaluation Policy and the new terms of reference of the Evaluation Committee through internal efficiency gains (e.g. the enhanced country programme evaluation methodology enables OE to assess the performance of and rate individual projects in a given country, thus allowing OE to reduce by around 50% the number of project evaluations in its 2007 work programme without affecting the production of the ARRI report; communication processes including the production of profiles and insights have been mostly mainstreamed into core evaluation activities, thus enabling OE to relinquish the services of a communications adviser working in OE since 2001; and so on) and partly also through an extraordinary effort, including overtime by OE staff. This allowed OE to operate with a more or less consistent level of human resources and budget over the past three to four years.

116. However, in 2007, this trend towards higher-plane evaluations will increase dramatically, causing a corresponding increase in OE's work programme that cannot be managed by the financial and human resources currently available to it. However, it is important to note that, while preparing its 2007 work programme, OE has made every effort to minimize the corresponding increase in the 2007 budget by very carefully staggering the start and end dates of each evaluation in its proposed work programme. As a result, a number of new evaluations will start during the course of 2007, rather than at the beginning of next year. This has allowed OE to reduce the full-time equivalent of all the evaluations planned in 2007, and therefore the human and financial resources impact that the significant increase in the higher-plane evaluations could have otherwise caused in 2007.

117. In sum, the proposed budget will have to take into account the significant increase in the actual number of higher-plane evaluations in 2007, in particular corporate-level and country programme evaluations, which, being more complex to design and implement, will have an important bearing on OE's human and financial resources.

118. On the financial side, an early estimate indicates that OE will require an overall increase of US\$1.3 million in its 2007 budget to accommodate in particular the joint evaluation with the AfDB (estimated to cost around US\$800,000) as well as increases in staff costs. These are caused by increases in standard costs (around US\$286,000) as well as by an increase in human resources required for implementation of the 2007 work programme, including a greater number of higher-plane evaluations (for an additional cost of around US\$384,000). With regard to the latter, one key consideration is that higher-plane evaluations require hiring consultants with international standing, who are credible, and hence have the leadership expertise and experience required for undertaking such complex evaluations. Also, the level of effort by the selected consultants for these evaluations is much greater than for project evaluations. Additionally, following international good evaluation practice, OE is increasingly recruiting senior advisers for higher-plane evaluations. Past experience shows that the added costs of recruiting highly experienced consultants and senior advisers are often around double and sometimes higher than those for consultants recruited for project evaluations.

119. Likewise, workshops at the end of evaluations have been widely recognized as extremely useful for learning and dissemination of evaluation results, providing also an opportunity for dialogue and partnership-building. However, the organization of such workshops is complex and costly, especially those in relation to corporate-level and in general higher-plane evaluations, which normally also include the participation of individuals from all IFAD regions.

120. With regard to OE human resources, it must be noted that the greater emphasis on higher-plane evaluations requires the leadership of more experienced and senior evaluators, who need to invest more time and effort in such evaluations, as compared with project evaluations. More time of other OE staff is also required for quality assurance through peer review, which is an essential feature for all higher-plane evaluations.

121. As mentioned previously, a workload analysis was recently conducted by an independent consultant in cooperation with IFAD's Office of Human Resources. Based on the proposed OE work programme for 2007 and the current level of human resources in OE, the initial findings of the workload analysis indicate the need for an additional 2 to 3.5 senior professional staff in OE, who can bring the necessary leadership and experience to allow OE to undertake the increased number of higher-plane evaluations in 2007. Even though the workload analysis is not yet complete, the preliminary results indicate that OE is most likely to require at least two of these additional senior professional staff²⁷ already in 2007. A firm proposal on human resource issues will be made in the final work programme and budget for 2007, which will be discussed with the Evaluation Committee in October 2006 and thereafter with the Executive Board in December.

122. In conclusion, it is noteworthy that the increases in the proposed work programme and budget are driven exclusively by the structural change in the contents of OE's work programme,

²⁷ One additional post will be required on a permanent basis to fill the gap that the workload analysis showed existed already in 2005: a gap that OE anticipates will continue in the coming years. Hence, such a post will need to be for a regular staff member. The other senior evaluation officer posts required will be included in the final OE administrative budget for 2007 under the temporary costs category, since this post may not be needed on a permanent basis, given that it will be mainly devoted to implementing the extraordinary evaluation activities included in 2007.

in particular due to the increase in the emphasis on and number of higher-plane evaluations OE is expected to undertake in 2007.

PART III – RECOMMENDATIONS

123. The Executive Board is invited to:

- (a) provide comments and guidance on the strategic priorities and proposed programme of work and budget of IFAD for 2007 as described in part I of this paper, including the level of the programme of work, PDFF and administrative budget; and
- (b) provide comments and guidance to the Office of Evaluation on the proposed programme of work and budget presented in part II of this document.

124. Based on the deliberations and guidance provided by the Executive Board at its September 2006 session, the Fund will prepare the final proposed programme of work and budget for 2007, for consideration by the Audit Committee at its November 2006 meeting and by the Executive Board at its eighty-ninth session in December.

PROJECTED RESOURCES FOR COMMITMENT, 2004-2006

	Millions of U.S. dollars			Millions of SDRs		
	2006 Estimated	2005 Actual	2004 Actual	2006 Estimated	2005 Actual	2004 Actual
Committable resources at the beginning of the year	0.0	0.0	0.0	0.0	0.0	0.0
Loan cancellations	90.0	58.4	64.0	60.7	39.8	42.4
Exchange rate adjustment	(14.7)	24.3	1.7	(10.6)	2.1	9.0
Movement on contribution provisions	0.0	2.2	5.0	0.0	1.5	3.3
Subtotal	75.3	84.9	70.7	50.1	43.4	54.7
Member State contributions ^a	172.2	127.3	348.8	117.3	88.6	229.8
Loan reflows ^b	172.0	183.2	219.7	126.0	124.3	144.7
Net investment income ^c	41.5	68.2	108.7	28.0	46.3	71.6
Operating expenditures (including Office of Evaluation) ^d	(66.2)	(65.4)	(57.1)	(44.8)	(44.4)	(37.6)
After-Service Medical Coverage Scheme (ASMCS) ^e	0.0	(11.1)	12.3	0.0	(7.5)	8.1
PDFF ^f	(38.4)	(29.0)	(27.7)	(26.2)	(19.7)	(18.2)
Strategic Change Programme ^g	(4.0)	(0.6)	(4.4)	(2.7)	(0.4)	(2.9)
Resources after expenditures	352.4	357.5	671.0	247.7	230.6	450.2
Commitment for loans and grants ^h	(536.5)	(516.7)	(476.7)	(363.7)	(349.8)	(315.7)
Resources before use of advance commitment authority (ACA)	(184.1)	(159.2)	194.3	(116.0)	(119.2)	134.5
Net use (cover) ACA ⁱ	184.1	159.2	(194.3)	116.0	119.2	(134.5)

USE OF ACA	Millions of U.S. dollars			Millions of SDRs		
	2006	2005	2004	2006	2005	2004
Opening balance	296.0	136.8	331.1	207.5	88.3	222.7
Net use/ (cover) ACA during the year	184.1	159.2	(194.3)	116.0	119.2	(134.5)
ACA carry forward	480.1	296.0	136.8	323.5	207.5	88.3

^a These projections are heavily dependent on the assumptions used for Sixth Replenishment contribution payments, which are based on normal and agreed payment.

^b Loan reflows are shown net of repayments on behalf of countries receiving relief under the Debt Initiative for Heavily Indebted Poor Countries.

^c 2006 estimate as at July 2006.

^d Operating expenditures are based on original budget approved and include one-time costs and Field Presence Pilot Programme.

^e No information is currently available regarding the potential charge for ASMCS for 2006.

^f PDFF numbers include carry-forward balance available.

^g Formerly the Process Re-engineering Programme.

^h Commitments for loans and grants include grants approved directly by the President and exclude former grant funds transferred to the PDFF.

ⁱ The table below shows details on the use of advance commitment authority.

OE ACHIEVEMENTS IN RELATION TO PLANNED PRIORITIES AND ACTIVITIES IN 2006

Priority Area	Type of Work	Evaluation Activities	Planned Implementation Status	Present Status (July 2006)
(a): Undertake selected corporate level, regional strategy, country programme, thematic and project evaluations	1. Corporate-level evaluations	Evaluation of the IFAD Rural Finance Policy	To be completed by Oct 2006	Undertaken as scheduled
		Evaluation of the Field Presence Pilot Programme	To start in Jan 2006	Undertaken as scheduled
		Evaluation of the Action Plan	To be completed by Dec 2007	Will start in Sep 2006
		Evaluation of the Regional Strategy for PI	To be completed by Jun 2006	Completed in Jul 2006
		Evaluation of the Regional Strategy for PN	To start in Jan 2006	Started in Jun 2006
	2. Country programme evaluations	Brazil, PL	To start in Oct 2006	Will start on schedule
		Ethiopia, PF	To start in Oct 2006	To start in Jan 2007
		Mali, PA	To be completed by Dec 2006	Undertaken as scheduled. Final workshop early 2007
		Morocco, PN	To be completed by Nov 2006	Started May 06. Will be finished in Apr 2007
		Nigeria, PA	To start in Dec 2006	To start in Jan 2007
	3.1 Interim project evaluations	Colombia, Rural Micro-enterprise Development Programme, PL	To be completed by Dec 2006	Undertaken as scheduled
		Peru, Development of the Puno-Cusco Corridor Project, PL	To be completed by Jun 2006	Undertaken as scheduled
	3.2 Completion project evaluations	Belize, Community-Initiated Agriculture and Resource Management Project, PL	To start in Dec 2006	Will start as scheduled
		Ethiopia, Southern Region Cooperatives Development and Credit Project, PF	To be completed by Sep 2006	Started in Feb 2006. Completion workshop will take place early 2007
		Georgia, Agricultural Development Project, PN	To start in Apr 2006 and to be completed by Sep 2006	Undertaken as scheduled

ANNEX II

		Morocco, Tafilalet and Dades Rural Development Project, PN	To be completed by Feb 2006	Completed
		Niger, Special Country Programme – Phase II, PA	To start in Apr 2006 and to be completed by Sep 2006	Started in Jun 2006. Will be finished in Jan 2007
		Philippines, Cordillera Highland Agricultural Resource Management Project, PI	To start in Jun 2006 and to be completed by Dec 2006	Undertaken as scheduled
		Romania, Apuseni Development Project, PN	To start in Jan 2006 and to be completed by Jul 2006	Started in Apr 2006 and will be completed in Nov 2006
		United Republic of Tanzania, Participatory Irrigation Development Programme, PF	To start in Mar 2006 and to be completed by Sep 2006	Will be completed in Nov 2006
(b): Specific evaluation work required by the Evaluation Policy for presentation to the Evaluation Committee and Executive Board	4. 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 2006	In progress as scheduled
		Review of the implementation of the work programme and budget 2006 and preparation of the work programme and budget 2007	To be completed by Dec 2006	In progress as scheduled
		OE's comments on the President's report on the implementation status of evaluation recommendations and management actions (the PRISMA report)	To be completed by July 2006	Undertaken as scheduled
		Fourth annual report on the results and impact of IFAD operations (the ARRI report)	To be completed by Dec 2006	Will be completed on schedule and presented to the Committee and Board in October and December 2006, respectively
		OE Comments on the portfolio performance report (the PPR report)	To be completed by Apr 2006	Completed as scheduled

ANNEX II

		Field visit of the Evaluation Committee	March 2006	Completed as scheduled
(c) and (d): Outreach and partnership; evaluation methodological development; and other activities	5. Communication activities	OE reports, evaluation profiles and insights, and website	Jan-Dec 2006	Activities on schedule
	6. Partnerships	Swiss Agency for Development; United Nations Inter-Agency Working Group on Evaluation and Evaluation Cooperation Group	Jan-Dec 2006	Activities on schedule
	7. Methodological work	New evaluation manual	To be completed by Dec 2006	Will be completed as scheduled
		OE's contribution to enhance IFAD self-evaluation activities	To be completed by Dec 2006	Will be completed as scheduled
		Consultants management	To be completed by Dec 2006	Will be completed as scheduled
		Conference on evaluation	Oct 2006	A number of conferences related to evaluation were organized including on the Mexico CPE and the EVEREST
		Peer reviews of all higher-plane evaluations	To be completed by Dec 2006	Ongoing
	8. OPV/OE coordination	Quarterly activity review meetings	Four meetings in 2006	One meeting held in first semester
	9. Project development teams (PDTs) and Operational Strategy Committee (OSC)	Two PDTs per evaluation officer and OSCs are required	January-December 2006	Activities on schedule

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

OE STAFF LEVELS FOR 2007

	Regular Posts	Temporary Staff	Total
Administrative Budget	16.5	3.5	20

Notes

- In 2007, OE will have the services of three Associate Professional Officers from Belgium, Germany and Italy.
- Temporary staff are those with contracts of up to one year.

OE 2007 BUDGET PROPOSAL

**OE 2007 Budget Shown as Expenditure Basis
(thousands of U.S. dollars)**

	2006	2007 Staff Costs Only^a	2007
Staff costs	2 148	2434	2 818^b
Regular and fixed term	1 889	2143	2 341
Temporary staff	244	276	462
Overtime	15	15	15
Evaluation work	2 307		3 020
Corporate-level evaluations	965		1 280
Country programme evaluations	416		1 017
Project evaluations	631		433
Other activities	295		290
Evaluation Committee	74		75
Staff travel	268		273
Total	4 797	-	6 186

^a This column identifies the increase in staff costs in 2007 as compared to 2006 due to the increases dictated by the ICSC.

^b This includes: (a) the costs of two new senior evaluation officer posts (costing around US\$384,000); and (b) provisions for an increase of 12.16 % increase in the General Service staff costs, as recommended by the ICSC.

NOTE:

THIS IS A PRELIMINARY BUDGET, AS THE FINAL PROPOSAL WILL BE SUBMITTED TO THE BOARD IN DECEMBER 2006.

