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Enabling the rural poor
to overcome poverty

**Strategic priorities for a results-based
programme of work, Programme
Development Financing Facility and
budget of IFAD and its Office of
Evaluation for 2008**

Executive Board — Ninety-first Session
Rome, 11-12 September

For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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Abbreviations and acronyms

| | |
|-------|--|
| AfDB | African Development Bank |
| CMRs | corporate management results |
| COSOP | country strategic opportunities programme |
| CPI | consumer price index |
| CPPMS | Corporate Planning and Performance Management System |
| DSF | Debt Sustainability Framework |
| ERM | enterprise risk management |
| FPPP | Field Presence Pilot Programme |
| ICSC | International Civil Service Commission |
| IFI | international financial institution |
| MfDR | managing for development results |
| PBAS | performance-based allocation system |
| PDFF | Programme Development Financing Facility |

Executive summary

1. In accordance with established practice, the Executive Board is invited to review and provide comments and guidance on the proposed strategic priorities, programme of work and high-level preview of the budget of IFAD and its Office of Evaluation for 2008. Feedback provided will be taken into account in finalizing the programme of work and budget for 2008 that will be presented to the Audit Committee in November and the Executive Board in December 2007.
2. From 2008, IFAD aims to capitalize fully on the improvements introduced through the IFAD's Action Plan for Improving its Development Effectiveness. Concrete measures to realign 2008 budget resources in this direction are being proposed, which will enable IFAD to make a step change in terms of increasing its development effectiveness and raising its efficiency.
3. Significant advances are being made through the Action Plan by strengthening country programming; improving supervision; raising the quality of project and programme design; enhancing knowledge management; and stimulating innovation. These measures are intended not only to strengthen IFAD's programmes, but also to better integrate IFAD's work into national-level planning and harmonization processes, and allow IFAD to contribute to the international debate on agricultural development and the role of the rural poor.
4. In order to direct, monitor and manage these processes for maximum results, in 2007 IFAD began implementation of an internal system for managing for development results. Initially focused on internal processes and efficiencies, this system will be extended to cover the field-level development results of IFAD's activities, subject to Executive Board approval of the Results Measurement Framework in September 2007. The Fund's programme of work and budget for 2008 will support operations given overall direction by the Strategic Framework 2007-2010, and managed within a results framework stretching from country-level impact to programme support operations provided from IFAD headquarters.
5. The highest priority for the Fund is to strengthen activities bearing on its development results, with a strong emphasis on increasing its country-level interface and coordination with development partners. Improving country presence and strengthening IFAD's role in programme supervision are necessary for improving development impact in close coordination with other United Nations agencies, international financial institutions (IFIs) and bilateral donors.
6. There is growing awareness in the international community of the key role of agriculture in sustainable poverty reduction, and of the challenges emerging from issues such as climate change and biofuels. It is within this context that IFAD proposes to expand its programme of work for loans and grants by 10 per cent, a figure consistent with the growth target established for the period of the Seventh Replenishment of IFAD's resources. A programme of work (loans and grants) of US\$650 million is therefore proposed for 2008, compared with US\$589.9 million in 2007. In order to raise the quality of programme design as the basis for greater impact, this expanded programme of work would be delivered with approximately 34 projects (thereby maintaining a target number of planned projects similar to that established for 2007, with the intention of increasing average size of investment per project, while remaining consistent with the requirements of the performance-based allocation system [PBAS]).
7. In order to support the proposed programme of work, the Fund proposes a total cost envelope¹ of US\$112.9 million, representing a 7.7 per cent nominal increase over the amount approved for 2007 (restated in current dollars, US\$104.85 million).

¹ This would include the regular administrative budget, replenishment costs and the Programme Development Financing Facility (PDDF).

8. In December 2006, the Executive Board established an efficiency ceiling ratio (administrative budget and the Programme Development Financing Facility [PDFF] as a percentage of the programme of work, net of transfer to PDFF) of 17.1 per cent. The Fund proposes to reduce the efficiency ratio in 2008 to 16.3 per cent (compared with the approved 17.1 per cent in 2006 and the approved 16.8 per cent in 2007), while at the same time integrating the country presence initiatives (i.e. the last 15 field presence pilot initiatives), increasing the training budget and directing resources towards operational rather than administrative tasks.
9. The growth in the total cost envelope will be concentrated in the PDFF, which is estimated to increase by 14 per cent in nominal terms or approximately 9 per cent in real terms. This reflects the priority on improving country programme quality, project design and project supervision, and the integration of country presence costs; all elements to be viewed within the context of increasing the programme of work by 10 per cent.
10. By contrast, the administrative budget for 2008 (apart from the replenishment costs as described in paragraph 12 below) is estimated to be US\$72.3 million, representing an increase of only 2.1 per cent in nominal terms over the restated approved envelope of US\$70.8 million for 2007. This demonstrates zero real growth in the strictest sense, applying the consumer price index (CPI) rate of inflation to the entire administrative budget. This is in contrast with previous years where a composite index was used (as is standard IFI practice), combining the CPI for non-staff expenditures and a special staff-cost inflation index reflecting (in IFAD's case) changes in staff unit costs recommended by the International Civil Service Commission (ICSC). A stricter definition of zero real growth (that is CPI applied to all costs) has been adopted for 2008 in order to focus on streamlining and achieving efficiency gains.
11. Furthermore, the administrative budget will include an increased training budget and demonstrate a shift in resources from non-operational to operational areas. These shifts – combined with the use of the stricter zero real growth definition – reflect IFAD's commitment both to administrative cost containment and to effective use of available resources.
12. The Consultation on the Eighth Replenishment of IFAD's resources will begin in 2008 and the costs – currently estimated at US\$1.8 million – are also factored into the efficiency ratio of 16.3 per cent. These replenishment costs will be included in the total cost envelope for 2008. It should be noted that they do not form part of the administrative budget relating to regular work that will form the base for formulating the 2009 budget. As such, the replenishment costs are shown separately.
13. Increased administrative efficiency will also be pursued as part of the general drive for process streamlining. Comparison with other IFIs indicates that IFAD has been spending less on information technology than its comparators. In order to provide the basis for necessary longer-term investments, IFAD proposes to introduce a capital budget, a practice that has been adopted by other IFIs. This will be done within the context of a capital budgeting framework, which was presented to and endorsed by the Audit Committee in June 2007.
14. Part two of this document presents the preview of the work programme and resource issues for 2008 for IFAD's Office of Evaluation (OE). It should be noted that although OE's budget is presented in the same document as IFAD's, in accordance with the Evaluation Policy approved by the Executive Board at its seventy-eighth session, OE's budget is considered and approved separately.²

² "A separate budget for evaluation is another important dimension of independence." Paragraph 13, IFAD Evaluation Policy, document EB 2003/78/R.17/Rev.1.

Part one – 2008 strategic priorities for a results-based programme of work, Programme Development Financing Facility and budget of IFAD

I. External context

1. While the effort to achieve the Millennium Development Goal (MDG) of halving extreme poverty and hunger by 2015 is on track at the global level, the outlook for most sub-Saharan African countries is bleak. Global poverty is concentrated in the rural areas of developing countries and – according to World Bank projections – the majority of the world's poorest people will still be living in rural areas in 2015. Most of these people are, and will continue to be, involved in some way with agriculture.
2. The physical, economic, political and social environment with which poor rural people must cope has been changing rapidly in recent years. These changes pose new challenges that must be taken into account in the ongoing efforts to achieve the MDGs. Failure to respond adequately to these challenges is likely to deepen poverty and hunger. The changes, however, also present new opportunities that can result in improved livelihoods for the rural poor.
3. Climate change threatens to exacerbate rural poverty because it is the poor – above all, the rural poor – in developing countries who are most vulnerable to its effects. Changing rainfall patterns and higher temperatures are reducing agricultural yields, leading to new infestations of pests, decreasing the fisheries resources essential to rural livelihoods, and increasing the frequency and severity of extreme weather events. The threat is most severe in sub-Saharan Africa, which faces multiple stresses and presently lacks strong capacity to adapt to climate change.
4. In a similar way, it is the rural poor who are among the most vulnerable to the effects of the HIV/AIDS epidemic. In five countries in southern Africa – the epicentre of the epidemic – the adult HIV prevalence rates range from 16 to 33 per cent. The epidemic in rural areas is depleting capital and household assets, increasing labour costs, and creating problems in the transfer of agricultural knowledge and marketing know-how to the next generation.
5. Changing global market conditions, the consolidation of global supply chains and the emergence of new biofuel markets are together resulting in profound changes for poor rural producers. Opportunities to engage in new produce markets are emerging for some poor rural people, but many poor people are excluded from these increasingly demanding and standards-driven markets. Relatively little is understood at present regarding the likely impact of expanding biofuel production on agricultural growth and poverty reduction; however what is clear is that biofuel markets have led to increased global commodity prices. This may provide opportunities for those households with commodities to sell, but pose new threats to food-deficit households. In addition, the range of new and profitable markets is causing increases in land value in many areas, a phenomenon that is creating new risks of displacement for the poorest and most vulnerable households.
6. Other interrelated phenomena aggravating these issues include increased migration out of rural areas. While migration has made remittances one of the fastest-growing resource flows to developing countries, and it is true that these resources often go to the poorest communities, migration can also mean an increase in woman-headed households and a shortage of labour in rural areas.
7. The agricultural sector has been neglected for several years, and only recently has it come into much sharper focus, particularly in terms of its role in poverty reduction and food security. Appreciation is growing, both in national government

and in the international development community, that achieving MDG 1 will require new and more intense support for pro-poor agriculture and rural development. Studies have shown that growth in agriculture benefits the poorest four times more than an equivalent level of growth in non-agricultural sectors.

8. The Paris Declaration on Aid Effectiveness has enshrined the principle that national governments need to lead and own the development processes of their countries. Today poverty reduction strategy papers (PRSPs) represent both the universally recognized mechanism for governments to articulate their strategic priorities for poverty reduction and the overall framework with which all development assistance efforts must be aligned. In support of national ownership, the importance both of harmonization of donor assistance and of donor alignment with national systems continues to grow. This is reflected in the increasing use of new aid delivery mechanisms, such as general direct budget support; joint coordination mechanisms such as the PRSP; joint assistance strategies; and the One UN pilot initiative.
9. The challenge of articulating new solutions that involve, and sustain the ability of, poor rural people to overcome poverty requires practical collaboration with all relevant partners, especially poor rural people. For IFAD, this means successful implementation of programmes for enhanced sustainability and impact, dissemination of the knowledge gained, and replication and expansion of proven solutions. It also means that IFAD must weave its initiatives into national-level realities and strategies more effectively, for instance into systems of strengthened coordination emerging within the United Nations system and among other donors. The national-level interface is key: it lies at the core of effective collaboration with poor people and their organizations; it is at the heart of the Paris harmonization agenda; it is where real experience of development issues is gained; and it is where vital elements of policy dialogue take place.

II. Internal context

10. The framework of the Fund's activities over the period 2007-2009 is IFAD's Action Plan for Improving its Development Effectiveness and the core challenge it poses: raising development effectiveness while simultaneously raising efficiency. In December 2006, the Executive Board approved the IFAD Strategic Framework 2007-2010, which defined IFAD's contribution to the international rural poverty reduction effort. The focus of the Action Plan has been on the elaboration of how to best deliver that contribution – and measure it. Several of the elements foreseen under the Action Plan are already under implementation.
11. The main instruments for achieving IFAD's development effectiveness are country-level operations, policy dialogue and knowledge management. The new IFAD Strategy for Knowledge Management was approved by the Executive Board in April 2007. The main operational initiatives for raising development effectiveness have focused on improving (and increasing innovation in) country programme and project design, increasing integration into national plans and strategies, enhancing national-level partnerships, and boosting support for successful programme implementation.
12. Key elements of these initiatives are an expansion of IFAD's role in programme and project supervision, and the integration of country presence into IFAD's operating structure. While third-party supervision of IFAD projects has long been understood to be a weakness in its results delivery and knowledge management model, the escalating costs and functional shortcomings of some of its supervision partnerships have now raised the urgency for IFAD to increase the level of direct supervision of the projects and programmes it finances, as prefigured in the IFAD Policy on Supervision and Implementation Support approved by the Executive Board in December 2006. This will allow more proactive management of supervision for stronger country-level results.

13. Country presence is a major factor in supporting IFAD's effective national-level engagement in strengthening national coordinated efforts for agricultural development. The evaluation of the Field Presence Pilot Programme (FPPP) has been positive, and IFAD agrees with the recommendation that country presence should be incorporated into the Fund's regular operating structure, with the additional costs integrated into the regular budget. Taken together, increased direct supervision and the regularization and organizational integration of country presence take IFAD decisively closer to the partnerships and engagements that are vital to its success.
14. Notwithstanding these essential engagements, the Fund is committed to ensuring that its total costs envelope – including the Programme Development Financing Facility (PDFF) – does not grow as a proportion of the programme of work (of loans and grants). In December 2006, the Executive Board endorsed an administrative budget for IFAD for 2007 of zero real growth (according to a definition that integrated costs recommended by the International Civil Service Commission into the inflator), while approving both a programme of work and a PDFF budget involving significant real increases. In essence, the Fund undertook to improve and expand its lending and operational support programmes, with no real increase in its administrative budget.
15. Raising the level of efficiency is a key objective on the human resource management reform agenda under the Action Plan. The two principal points of orientation are better alignment and management of staff for priority results, and better productivity. Better alignment signifies that staff resources are more focused on (and prepared for) IFAD's value-adding functions, particularly in the operational areas. Better productivity signifies greater output per unit – on the basis of enhanced capacity and improved processes.
16. The alignment and productivity issues are closely linked: putting more resources in IFAD's key value-adding areas (an essential dimension of alignment) will be dependent upon putting relatively fewer resources in non-operational areas. In order not to compromise service levels and quality, this will require greater efficiency in non-operational areas – in the form of more efficient internal processes or, where appropriate, outsourcing to lower-cost providers. The proposed administrative budget gives very clear objectives and parameters in terms of efficiency gains to service managers.
17. Part of the planned efficiencies in staff usage in non-operational areas will be derived from process changes involving reduction of labour-intensive checking and maximizing the use of information technology, within a tighter framework of risk management and accountability. Other efficiencies will come from continued improvements in staff skills and process streamlining.
18. While IFAD is strengthening its country presence and direct supervision, it has been spending less on information and communications technology in recent years than comparable organizations.³ Catching up with the appropriate level of technology needed will require investments that are incompatible with IFAD's short-term budget parameters. Like other comparable institutions, IFAD requires an instrument that enables it to amortize the cost of such investments against future administrative budgets. Consequently, the Fund will propose the introduction of a capital budget for 2008.

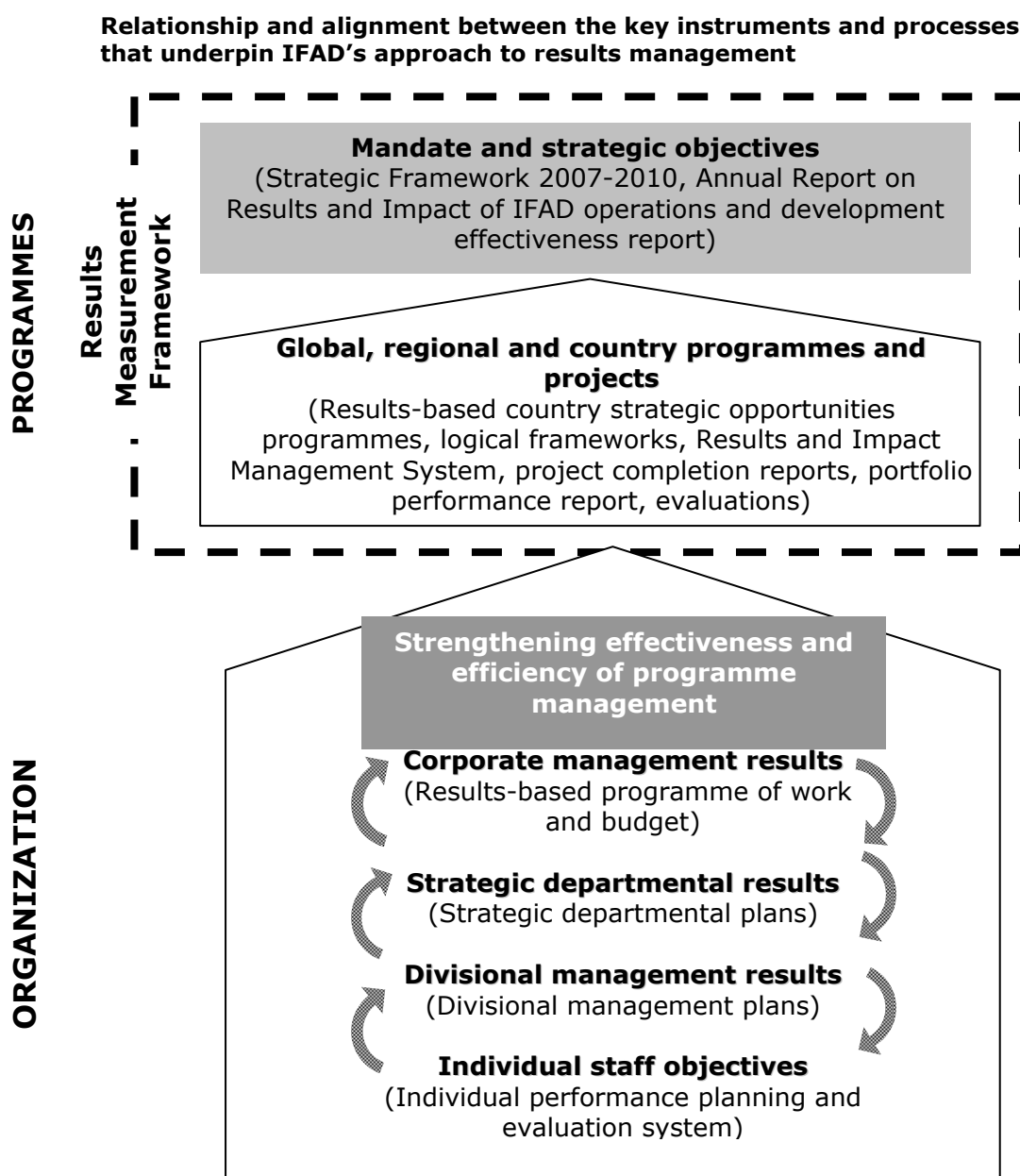
III. Towards a results-based organization

19. IFAD – like several other organizations – is fully committed to a managing for development results (MfDR) approach in the projects and country programmes it supports, and in the institution itself. The Fund must focus its resources and

³ Based on an IFI key information technology benchmarks survey released by the World Bank's International Finance Corporation in March 2007.

activities on key strategic priorities, and ultimately fulfil them. In practice, MfDR will enable IFAD to better plan, monitor, measure, report more effectively, and manage more proactively for results, at both the country level and internally.

20. Results planning, monitoring and assessment represent a continuum, which is underpinned by the following two principles:
- Consistency between strategic planning and operational planning at all levels, combined with alignment between the programme area (i.e. global, regional and country programmes and projects) and the organizational areas (departments, divisions and individuals).
 - Proactive performance monitoring and assessment at all levels, and use of this information in decision-making and learning.
21. The relationships and alignment between the key instruments and processes that underpin IFAD's approach to results management are shown in the figure below.



22. Most of the elements shown in the figure have been in full operation since the beginning of 2007, and it is expected that the system as a whole will be completely operational from 2008. With respect to the programme dimension, the Results Measurement Framework will draw on various processes and instruments to provide a high-level assessment of the performance of country programmes and projects. A full description of the Results Measurement Framework and its relation to elements represented in the programme section of the figure above is provided in document EB 2007/91/R.2, the Results Measurement Framework for Reporting on Progress Achieved against the IFAD Strategic Framework 2007-2010, which is presented for the approval of the Executive Board in September 2007.
23. The organizational dimension of MfDR (depicted in the bottom half of the above figure), is also referred to as the Corporate Planning and Performance Management System (CPPMS). For the first time, each department and division has a results-based management plan, which will align all divisions and departments with – and support their contribution to – corporate management results (CMRs), which in turn cascade into the performance plans prepared by staff.
24. Key features of the CPPMS include:
- (a) Departmental and divisional plans require that risks to the achievement of stated objectives be systematically identified, assessed and mitigated. This is part of IFAD's effort to introduce enterprise risk management, which is described in section IV in further detail;
 - (b) **Interdepartmental consultations** are held during the planning phase to strengthen alignment and collaboration across departments towards achievement of the CMRs. This was undertaken for the first time in 2007, and the consultations proved to be particularly valuable in promoting horizontal linkages between operational and support groups in IFAD, and strengthening alignment – both within and across departments – with common corporate results;
 - (c) Monitoring and reporting on divisional management plans take the form of **performance conversations** that are held quarterly at the division, department and senior management levels.⁴ The first round of performance conversations was conducted in April 2007. By providing a concise, real-time and comprehensive overview of performance and risks (based on a traffic light system), the performance conversation process has been found by senior and middle managers and other staff to be very useful, indeed critical for strengthening IFAD's capability to manage for results.
25. Notwithstanding further adaptation and fine-tuning of the system, all these advances will permit 2008 to be first year for which IFAD's programme of work and budget is formulated within a comprehensive results-based framework, leading to the fulfilment of one of the Action Plan's deliverables to the Executive Board in December 2007.

IV. MfDR and enterprise risk management

26. As an integral part of the approach to MfDR and, ultimately, to raise the Fund's development effectiveness, IFAD is committed to enterprise risk management (ERM) to establish a conscious, systematic and effective approach to managing risks and opportunities. The importance of risk management and the urgent need for its internalization into our day-to-day operations have been reinforced by recent business headlines and the occurrence of large-scale crises around the world. The need is particularly important at this time, as IFAD embarks on major

⁴ These conversations focus on performance (measured through key performance indicators) and learning in order to solve problems and reinforce successes, and on addressing key risks, which are then escalated to the department or senior management levels.

reforms geared towards increased proactivity in the supervision of its programmes and in its country presence. ERM is therefore an essential tool to strengthen IFAD's capability to attain its strategic objectives. At the same, ERM should instill stakeholders with greater confidence in the organization's corporate governance and ability to deliver in a systematic and structured manner.

27. Sustained progress has been made by IFAD over the last few years under the auspices of the Office of Audit and Oversight, both in strengthening internal procedures and controls and in establishing procedures to manage financial, operational and reputational risk.⁵ More recently, the introduction of results-based country strategic opportunities programmes, improvements to the quality-at-entry process, and integration of risk management into the CPPMS have focused increased attention on risk management both at the programme and at the organizational level. In terms of risk management, monitoring and escalation processes are already in operation as part of the regular quarterly performance conversations, through a corporate risk register. A separate risk register will be maintained for the Action Plan until the end of 2007, following which it will be merged with the corporate risk register.⁶
28. Further work is required for the development and full institutionalization of a corporate approach to ERM. Senior Management is committed to carrying out tasks related to risk management and has designated the Vice-President to champion this key corporate process. The approach will entail improving and better coordinating work currently in progress in various areas. In the meantime, IFAD has sought to benefit from existing expertise in similar organizations through participation in a United Nations/international financial institution (IFI) community of practice for ERM. In due course, the Audit Committee will be requested to review and provide advice on ERM.

V. Corporate and departmental management objectives

29. The overriding objectives of the Fund in 2008 are to (i) deliver an expanded programme of work that is underpinned by an enhanced quality-at-entry process and (ii) support the implementation of its portfolio of loans and grants for maximum development impact. These objectives will be pursued within the context of a medium-term process that privileges operations and focused policy dialogue, raises administrative efficiency, and significantly improves human resource management.
30. The focus of the Programme Management Department (PMD) is on: strengthening IFAD country programming, especially its articulation with national policy development, planning and aid coordination mechanisms; improving supervision both by IFAD in the context of the Fund's increasing assumption of direct supervision responsibility and by a broader range of partners, including national partners; and raising quality and enhancing innovation in project and programme design. All of these efforts will require more resources, a greater focus on knowledge management and sharing, and rapid staff development to enable them to carry out their new roles. Furthermore, as country presence evolves beyond the pilot stage, more systematic integration is needed of this presence into corporate management and communication systems.
31. The principal objective of the External Affairs Department (EAD) is to increase global- and by extension, national-level awareness of the challenges facing poor rural people and the opportunities offered to them. Accordingly, in 2008, EAD will collaborate very closely with PMD to implement the IFAD Strategy for Knowledge

⁵ An extensive account of progress was provided in document REPL.VII/4/R.5, which was presented to the Fourth Session of the Consultation on the Seventh Replenishment of IFAD's Resources, Doha (Qatar), 1-2 October 2005.

⁶ The risk register of the Action Plan was shared with the Executive Board in December 2006 under document EB 2006/89/R.47, Progress Report on Implementation of IFAD's Action Plan for Improving its Development Effectiveness.

Management and the IFAD Innovation Strategy effectively, and to support IFAD's engagement in national and international policy dialogue. Following on the *World Development Report 2008: Agriculture for development*, and in the light of the growing importance accorded to agriculture in reducing poverty, a key priority for EAD in 2008 will be the preparation of a rural poverty report (to be published in 2009).

32. Good communication – both internal and external – is essential to IFAD's operations at the global and national level; and communications support will be increasingly provided on the basis of explicit corporate priorities, reflected in strong internal service agreements. The Consultation on the Eighth Replenishment of IFAD's Resources is scheduled to take place in 2008, and a key role for EAD will be to lead the effort across the house to provide full and adequate support to this process. At the same time, EAD must efficiently fulfil its Secretariat functions in order to ensure the normal governance processes of the Fund.
33. The objective of the Finance and Administration Department (FAD) is to provide strategic and responsive services by ensuring that its human and financial, investments, and information technology (IT) and material resources are efficiently and effectively used in achieving the corporate objectives and priorities set out in the strategic framework. In 2008, FAD will spearhead the corporate drive towards the increased administrative efficiency necessary to refocus IFAD's budget resources on achieving its development effectiveness targets. FAD will seek to reduce its own administrative costs, and also those of other groups, through process streamlining. In addition, FAD will directly contribute to the effectiveness of the Fund's country-level operations through the orderly integration of country presence into IFAD's managerial, administrative and communications systems, and through enhanced support to the corporate responsibilities arising from the Fund's expanded supervision role. This increased administrative efficiency will be in part achieved through implementation of a comprehensive IT strategy to upgrade key systems in the light of the changes in IFAD's structure and role. With respect to the new headquarters, FAD is managing IFAD's relocation to its new headquarters premises. In addition, FAD will be examining ways to reduce the carbon footprint left by the Fund.
34. MfDR is emerging as a vital system for underpinning effectiveness and efficiency, and, as indicated above, the Fund has made substantial progress not only in developing the system, but also, crucially, in adopting it as an effective management tool. In 2008, the emphasis will be twofold: integrating field-level results (through the Results Measurement Framework); and capitalizing on the practical experience of 2007 to simplify the MfDR process and make it compatible with normal management responsibilities.
35. An essential contribution of FAD is its support to revitalizing its human resources management, in particular enhancing the ability to fulfil the strategic staff management and development functions that are integral to the responsibilities of line managers at all levels. A vital dimension of strategic staff alignment is a significant improvement in staff training and career development. This will involve considerable expansion in staff training, which has been given insufficient budgetary priority in the past. Within the overall training programme, the immediate priority will be to raise the capacity of middle managers to manage human resources. This has already begun in the context of the IFAD Management Development Centre – a joint project by IFAD, the Food and Agriculture Organization of the United Nations and the World Food Programme – and the effort will be intensified in 2008.

VI. The programme of work for 2008

36. IFAD's principal development instrument is the programme of work of loans and grants and, within the framework of the Seventh Replenishment, IFAD is committed to seeking to increase its programme of work in dollar terms by 10 per cent each year. In 2007, the planned programme of work is US\$605 million (or US\$589.9 million excluding the transfer of US\$15.1 million to the PDFF), an increase of 10 per cent over the planned programme of work for 2006. This includes US\$544.5 million for loans and US\$60.5 million for grants (including the US\$15.1 million transfer to the PDFF). Pursuing a strategy aimed at increasing the average size of loans to establish a better balance between the loan value and preparation and implementation support costs, it was proposed that the lending component of the programme of work for 2008 comprise approximately 34 projects (maintaining a target number of planned projects similar to that established for 2007, but consistent with the requirements of the performance-based allocation system [PBAS]).
37. In 2006, the actual result exceeded the indicative programme of work of loans by some US\$26.58 million, principally as a result of top-up loans for four post-tsunami programmes. The planned grant programme (exclusive of the transfer to the PDFF) slightly exceeded the indicative level of US\$41.25 million, and was delivered in 109 grants.
38. The distribution and structure of IFAD's lending programme in 2006 conformed with IFAD's articles of agreement that a two-third share of the lending programme be reserved for highly concessional borrowers, and with the Seventh Replenishment agreement⁷ that at least the current (2005) percentage share of resources be directed to sub-Saharan Africa. In 2006, highly concessional lending stood at 78.9 per cent and the percentage of lending (in United States dollar terms) to sub-Saharan Africa was 43 per cent, representing an increase over the 2005 level.
39. In 2007, for the first time, IFAD's PBAS is operating outside the system of regional allocations. The estimated outcome of the application of this approach – which still takes into account the agreement to maintain the share of sub-Saharan Africa in IFAD's total lending – will be available in the programme of work and administrative budget proposal to be submitted for the endorsement of the Executive Board in December 2007.
40. Loan commitments at the Executive Board session in April 2007 amounted to some US\$122 million, or 22 per cent of the indicative programme for 2007. It is planned that the entire indicative programme will be delivered in the course of the year. In order to enhance the quality of design and the operation of grants, it has been decided to reduce significantly – i.e. from 109 to around 75 – the number of individual grants extended under the grant programme.
41. As a result of the adoption of the Debt Sustainability Framework (DSF)⁸ and the associated modifications to the IFAD Policy for Grant Financing⁹ by the Executive Board in April 2007, the internal composition of the programme of work and budget in 2008 will change. Moreover, the percentage of the programme of work reserved for country-specific grants will shrink from 2.5 per cent to 1.5 per cent, reflecting the fact that DSF-eligible countries will henceforth receive all or half of their assistance from IFAD in the form of grants and therefore will no longer access the country-specific grants envelope. The percentage of the programme of work and budget dedicated to global/regional grants (5 per cent) will remain unchanged. As a result of the adoption of the DSF, the loan element of the programme of work will, in 2008, combine the volume of loans and the volume of

⁷ Performance-based allocation system, document REPL.VII/5/C.R.P.7/Rev.1.

⁸ Proposed arrangements for implementation of a debt sustainability framework at IFAD, document EB/2007/90/R.2.

⁹ IFAD Policy for Grant Financing in relation to the debt sustainability framework, document EB.2007/90/R.3.

assistance provided under DSF terms. The proposed overall structure and volume of the programme of work for 2008 is set forth in table 1.

42. It is proposed that the transfer of 2.5 per cent of the programme of work to the PDFF be eliminated.

Table 1
Structure of the programme of work for 2008 compared with 2007

| | 2007 | | 2008 | | | |
|--|------------|------------------------|------------|------------------------|---|----------------------------|
| | Percentage | Millions of US dollars | Percentage | Millions of US dollars | | |
| Global/regional grants | 5 | 30.30 | 5 | 32.44 | | |
| Country grants | 2.5 | 15.10 | 1.5 | 9.73 | | |
| Total regular grants | | 45.40 | | 42.18 | | |
| Transfer to PDFF | 2.5 | 15.10 | | | | |
| Loans and assistance on DSF terms | 90.0 | 544.50 | 93.5 | 606.68 | | |
| Total programme of work | | 605.00 | | 648.86 | | |
| | | | | | <i>Increase in millions of US dollars</i> | <i>Percentage increase</i> |
| Transfer to PDFF | | 15.10 | | | | |
| Programme of work net of transfer to the PDFF | | 589.90 | | 648.86 | 58.96 | 10 |
| Programme of work to be proposed, rounded to: | | | | 650.00 | | |

43. In line with the Seventh Replenishment undertaking, it is proposed that the IFAD programme of work for loans and grants for 2008 be 10 per cent greater than that for 2007 (net of the transfer to the PDFF in 2007). Thus, the indicative programme of work for loans and grants for 2008 is proposed as US\$650 million (compared with US\$589.9 million in 2007). As noted above, it is proposed that the transfer to the PDFF be eliminated from the programme of work to be financed directly from regular resources. The 10 per cent increase relative to 2007 has correspondingly been applied not to the entire programme of work for 2007, but only to the programme of work directly committed to resource transfers to loan and grant recipients.
44. A prime objective for 2008 is to enhance the quality of the programme of work. This will entail, inter alia, both investing more in individual project development and increasing the number of projects under development to absorb slippage in schedule or possible elimination for quality reasons. As a consequence, approximately 34 projects and programmes will be submitted for approval in 2008 (in line with PBAS requirements).
45. One of the objectives of the 2008 programme of work and budget is to establish a framework for the alignment of expenditures with corporate management results. On the basis of a new activity tree, the detailed programme of work and budget for 2008 will present information on the level of expenditure against better country programme design (CMR 1), better project design (CMR 2), better implementation support (CMR 3), and more strategic international engagement and partnerships (CRM 8), i.e. on activities directly linked to development effectiveness. Further evidence of this alignment is expected to be seen through positive trends in the overall ratio of operational to non-operational costs (see paragraph 60), which will be reported in the 2008 programme of work and budget.
46. Utilization of the 2006 administrative budget was 96.4 per cent, reflecting the conservative approach taken to the management of the budget as a result of the significant increase in General Service staff salaries (an approach that included a freeze on the hiring of staff that was implemented on 1 July 2006 and lifted on

1 January 2007). The International Civil Service Commission (ICSC) recommendation to increase General Service salaries was received in May 2006 and the forecast of total staff costs indicated that in order to stay within budget, staff levels must not increase. The final staff costs were less than forecast due to the lower-than-expected level of payroll-related accruals. Both factors contributed significantly to the overall remaining balance of 3.6 per cent in the administrative budget. Of this, the Fund can carry forward 3 per cent.¹⁰ The total amount carried forward into 2007 was US\$1.875 million, compared with only US\$209,000 in the previous year.

47. To improve country programming, project design, and supervision and implementation support, PDFF expenditure in 2006 increased by 20 per cent in nominal terms as a result of increased use of total PDFF from 78 per cent to 90 per cent, based on actual expenditure. Of the remaining 10 per cent not actually spent in 2006, 9 per cent was committed to specific projects and carried forward into 2007. The total amount of PDFF spent in 2006 – US\$34 million – was divided between PDFF(A) and PDFF(B) in the amounts of US\$16.5 million and US\$17.5 million, respectively. Within the development of new loans – PDFF(A) – US\$11 million (66.7 per cent) was spent on loan inception, formulation, appraisal and start-up.
48. Supervision and administration by cooperating institutions were by far the biggest expense in PDFF(B), constituting 51 per cent of the total. Implementation follow-up costs stood at 16.6 per cent and grant implementation costs accounted for 4 per cent.

VII. Proposed high-level dimensions of the costs for 2008

49. The 2008 administrative budget and PDFF must support the attainment of the Fund's priority results: to improve its development effectiveness, while increasing overall efficiency as expressed in the efficiency ratio between the programme of work (excluding any transfer to PDFF) and total costs. The approved efficiency ratio was 17.1 per cent in 2006, 16.8 per cent in 2007 and for 2008 the proposed level is 16.3 per cent (see table 4).
50. More specifically, three major factors are affecting the total estimated cost envelope of US\$112.91 million for 2008, which has been calculated at a level representing a reduction of the benchmark ratio from 16.8 per cent in 2007 to 16.3 per cent (see table 4). The first major factor is the proposed increase of 10 per cent in the programme of work, making it the third year in a row that such an increase has been proposed. The second factor is the reduction of the administrative costs budget to a nominal growth of 2.1 per cent, representing a real decrease of 4.4 per cent. The third is the mainstreaming of the field presence initiatives previously funded by the Field Presence Pilot Programme budget.
51. The total costs envelope in 2008 will be affected by the Consultation on the Eighth Replenishment of IFAD's Resources for which planning has already begun. The costs relating to the replenishment consultations occur only every three years, hence they do not form part of the annual activities of the Fund and are presented separately in the administrative budget.
52. It should be noted that these high-level figures are indicative at the time of preparing this document and could be subject to minor changes as detailed budget submissions are processed. Full details will be provided in the document to be presented to the December session of the Executive Board.

¹⁰ In 2004 the Governing Council approved an amendment to the regulations that allows IFAD to carry forward unappropriated obligations up to (but not exceeding) 3 per cent of the administrative budget.

Table 2
Estimated total cost envelope for 2008

| | 2007 approved budget restated at 0.737 EUR/US\$ | Price increase | | Real increase/(decrease) | | 2008 estimate millions of US dollars | Nominal percentage increase |
|------------------------------|--|---------------------------|------------|---------------------------|--------------|---|-----------------------------------|
| | | Millions of US dollars | Percentage | Millions of US dollars | Percentage | | |
| Regular administrative costs | 70.81 | 4.8 | 6.8 | (3.3) | (4.4) | 72.3 | 2.1 |
| Replenishment costs | - | | | 1.8 | | 1.8 | |
| Total | 70.81 | 4.8 | 6.8 | (1.5) | (1.9) | 74.1 | 4.6 |
| PDFF | 34.04 | 1.7 | 5 | 3.10 | 9 | 38.8 | 14.0 |
| Total | 104.85 | 6.5 | 6 | 1.6 | 1.4 | 112.9 | 7.7 |

53. Reducing the administrative budget by 4.4 per cent in real terms while at the same time supporting both an increasing programme of work and a significantly growing training budget represents a major effort by the Fund to cut administrative costs and achieve efficiency gains. It should be noted that this is being done within the context of reducing the total cost envelope as a percentage of the programme of work (to 16.3 per cent), which in itself implies an overall improvement in efficiency.
54. The proposed reduction will require the Fund to review its functions and business processes further. Cost-efficiency will be a prime focus in 2008 for "support" departments in order to enable operating divisions to deliver a more effective and expanded programme of work. More proactive control over expenditure on staff costs will be required, given the significant increase in General Service staff salaries in 2006 (determined by the ICSC), and expected further increases in staff unit costs in future years.
55. The real decrease of 4.4 per cent in the administrative budget mentioned above is equivalent to a nominal increase of 2.1 per cent as explained in table 3 below.

Table 3
Estimated components of the administrative budget

| | 2007 restated at 0.737 EUR/US\$ | 2008 adopting zero real growth | Percentage price increase ^a | 2008 proposed administrative budget ^b | Percentage nominal increase | Percentage real increase/ (decrease) |
|---|---------------------------------------|--------------------------------------|--|--|-----------------------------------|--|
| Staff costs | 55.2 | 59.7 | 8 | 56.7 | 3 | (5) |
| Non-staff costs | 15.2 | 15.5 | 2 | 14.4 | (5) | (7) |
| Training | 0.4 | 0.408 | 2 | 1.2 | 200 | 194 |
| Total regular administrative costs | 70.8 | 75.6 | 6.8 | 72.3 | 2.1 | (4.4) |

^a Staff costs increased according to estimated actual increases recommended by the ICSC. Non-staff costs increase by Eurozone inflation of 2 per cent.

^b Distribution between staff and non-staff is only indicative and is likely to change.

56. The regular administrative budget has been restricted to **zero real growth** as determined by estimated inflation in the consumer price index (of 2 per cent in the Eurozone) and represents zero real growth in the strictest sense. This differs from the definition of the previous composite inflation factor that combines anticipated consumer price index inflation and a special staff cost index based on ICSC recommendations. (See annex I for more detailed discussion of zero real growth,

which has been applied as regular practice in previous years.) By adopting the purest definition of zero real growth (i.e. inflation applied to **all** costs) the overall increase in the regular administrative budget is 2.1 per cent, which is 4.4 per cent less than if the usual approach had been adopted.

57. Table 3 above demonstrates how the administrative budget shows a real decrease if the composite inflation rate definition is used. Average actual staff unit costs are expected to rise by some 8 per cent in 2008. Assuming a 2 per cent inflation rate for non-staff costs, the overall percentage increase in the administrative budget would be 6.8 per cent. This increase represents zero real growth using the composite index.
58. By contrast, it is proposed that the PDFF will grow much more significantly – by some 9 per cent in real terms or 14.0 per cent in nominal terms – reflecting the drive to improve the quality of country programmes, project design and project supervision, and the integration of country presence into the total cost envelope in the context of a 10 per cent increase in the programme of work.
59. The total cost envelope, in which the high-level proposals for the administrative budget and the PDFF have been developed, itself reflects the Fund's commitment to increasing overall efficiency, and in this regard it is proposed that the cost ratio be further reduced in 2008 relative to 2006 and 2007.
60. In order to demonstrate underlying real efficiencies, the benchmark efficiency ratio (which strips out the effect of exchange rate movements) was presented in the IFAD programme of work and budget for 2007.¹¹ The estimated total costs for 2008 represent a significant efficiency gain over 2006 and 2007. The approved efficiency ratio was 17.1 per cent in 2006, 16.8 per cent in 2007 and for 2008 the proposed level is 16.3 per cent (see table 4).

Table 4
Trend in efficiency ratio

| | <i>2006 approved</i> | <i>2007 approved</i> | <i>2008 proposed</i> |
|---|--------------------------|--------------------------|--------------------------|
| A – Programme of work, net of transfers | 536.25 | 589.90 | 650.00 |
| B – Total costs at EUR/US\$0.819 | 91.58 | 99.31 | 105.95 |
| Cost benchmark or tracking ratio (B/A) | 17.1% | 16.8% | 16.3% |

61. The focus on the PDFF will allocate more resources to IFAD operations and, in terms of the balance between operating and non-operating costs, there will be a shift in favour of operating costs. A discussion paper on the topic of operating cost definitions was presented to the Audit Committee on 27 June 2007¹² where it was proposed that IFAD adopt the following classifications: direct operational costs; indirect operational costs; supporting costs; and institutional costs. The Audit Committee generally agreed to the proposed categories, recognizing that it is not so much the exact category definition, but rather the monitoring of cost movements over time that is important. The categories are a management tool providing insights into the nature of the administrative costs envelope and can be used to support cost reallocation decisions. In the discussion paper presented to the Audit Committee it was estimated that, using the functional approach, the Fund's total direct and indirect operational costs amounted to approximately

¹¹ As indicated in the IFAD programme of work and budget for 2007, the use of a nominal dollar-to-dollar ratio is not helpful for tracking real efficiencies because of the impact of exchange rate variations on the dollar value of the administrative budget (whose expenditures are largely in euro). In this regard, the continuing downward adjustment of the United States dollar has inflated expenditures under both the administrative budget and the PDFF, particularly the former.

¹² Definition of operating costs and the activity tree, document AC 2007/97/R.6.

57 per cent (see table 5).¹³ This figure is similar to other IFIs. Using a methodology based on classification by organizational unit, IFAD's operational costs are 58 per cent, those of the Inter-American Development Bank are approximately 59 per cent and those of the African Development Bank, currently around 49 per cent.

Table 5
Calculating operating costs using the functional approach
(2006 and 2007 administrative and PDFF budgets)^a

| | 2006 | | 2007 | |
|--|-----------------------|------------|-----------------------|------------|
| | Million of US dollars | Percentage | Million of US dollars | Percentage |
| Direct operational | 34 | 37 | 39 | 38 |
| Indirect. operational | 18 | 19 | 19 | 19 |
| Direct + indirect operational costs | 52 | | 58 | |
| Support | 32 | 35 | 35 | 34 |
| Institutional | 7 | 8 | 9 | 9 |
| Grand total | 91 | 100 | 102 | 100 |

^a Excludes the budget of the Office of Evaluation.

62. Although the Asian Development Bank adopts the three categories of operating expenses, administrative expenses and institutional costs, it does not define these costs as strictly as other IFIs and therefore cannot be used as a comparator. For example the line items included within operating costs include all staff costs (which in some instances could be considered non-operating) as well as staff development costs.

VIII. Capital budget

63. IFAD's administrative budget is approved annually. However, there are administrative support initiatives that can also entail expenditures spanning a period exceeding one year. These expenditures are usually capital in nature (long-term service value) and amounts involved exceed the level of resources available in the annual administrative budget. Capital items are tangible or intangible assets such as facilities, equipment, building improvements, and communications and information technology applications and produces. They contribute to the achievement of the organization's objectives for more than one financial year and their cost is normally written off over a number of years (depreciation) corresponding in some measure to the timing of the flow of anticipated benefits/use of the related asset over the years.
64. At the Audit Committee meeting on 27 June, the Fund presented a capital budgeting framework that would allow IFAD to manage its activities involving capital expenditure and support proactive medium-term capital expenditure planning. The Committee endorsed the document and a capital budget, established within the context of the agreed framework, will be presented to the Executive Board in December 2007. This capital budget will be oriented specifically towards investments that promote business efficiencies, which generate future savings and allow depreciation to be charged to future administrative budgets.
65. Based on the deliberations and guidance provided by the Executive Board at its September 2007 session, the Fund will prepare the final proposed programme of work and budget for 2008, for consideration by the Audit Committee at its November 2007 meeting and by the Executive Board at its ninety-second session in December.

¹³ The functional approach defines organizational functions as operating, support, etc. and then calculates the amount spent on each functional activity. This differs from the organizational approach, which considers the cost breakdown according to organizational units.

Part two – Preview of the work programme and resource issues for 2008 of the Office of Evaluation

I. Background

66. This document is presented to the Evaluation Committee for consideration at its forty-eighth session in September 2007.
67. Following the comments of the Committee and based on the guidance and comments provided by the Executive Board during its ninety-first session, the Office of Evaluation (OE) will prepare its work programme and budget proposal for 2008 for discussion with the Evaluation Committee during its forty-ninth session on 10 October 2007. Thereafter, based on the further guidance of the Committee, OE will prepare its final work programme and budget proposal for 2008 for discussion at the ninety-second session of the Board (in December 2007). Prior to this, as per the Board's decision, the final proposal will be considered by the Audit Committee in November 2007, together with the Administrative Budget of IFAD for 2008.

II. Summary of the 2008 preview

68. The 2007 OE work programme and budget were unusually large, as compared with previous years, because of a surge in the number of evaluations, in particular (i) corporate-level evaluations and (ii) country programme evaluations, including the joint evaluation with the African Development Bank (AfDB). However, as instructed by the Board in December 2006, the proposed OE work programme and resource requirements for 2008 will return to a more sustainable level, which will result in an estimated 8 per cent decrease in real terms, as compared with 2007. In sum, the proposal for OE's budget in 2008 is around US\$5.7 million.

III. Achievements in 2007

69. OE had four main priorities for 2007: (i) conducting of selected corporate-level, country programme, and project evaluations; (ii) specific evaluation work required under the IFAD Evaluation Policy and the Terms of Reference of the Evaluation Committee; (iii) evaluation outreach and partnerships; and (iv) evaluation methodology development. Overall, OE has been able to implement all but one of the activities planned under the four established priorities, but it has also undertaken a number of activities that were not planned.¹⁴ The specific achievements against the priority areas are listed in Annex II.
70. More specifically, the six planned corporate-level evaluations¹⁵ for 2007 are on track. An inception report for the joint evaluation with AfDB's Operations Evaluation Department on agriculture and rural development in Africa was prepared in July. Desk work is in full swing and country visits in relation to this evaluation will be undertaken in the last quarter of 2007 and the first part of 2008. A memorandum of understanding between AfDB and IFAD, signed on 16 July in Tunis, captures the broad scope and the administrative and financial arrangements related to the joint evaluation. Among other issues, the memorandum entrusts OE with the day-to-day management of the joint evaluation.

¹⁴ The commencement date of the Sudan country programme evaluation (CPE) was postponed due to unforeseen delays in the entry-on-duty date of the senior evaluation officer assigned to the CPE. In terms of unplanned activities, OE is undertaking the evaluations of the Paris Declaration on Aid Effectiveness and the evaluation of the One UN pilot initiative.

¹⁵ These include the joint evaluation with AfDB, the evaluations of the Field Presence Pilot Programme, the Rural Finance Policy, and the Regional Strategy of IFAD for Near East and North Africa. Moreover, as per plan, towards the end of the year, OE will commence the evaluations of IFAD's capacity to promote replicable innovations and IFAD's approaches and operations in Meso America.

71. As requested by the Board in December 2004¹⁶, at the end of 2007, OE will begin the corporate-level evaluation of IFAD's capacity to promote replicable innovations for rural poverty reduction. This evaluation will include the assessment of the IFAD Initiative for Mainstreaming Innovation, which the Board had requested when approving the initiative in December 2004. In this regard, OE is cooperating with the evaluation offices of the Global Environment Facility and the International Development Research Centre. This will include an assessment of their own experiences in promoting innovations and their overall catalytic role. This collaboration will provide an opportunity for IFAD, the Global Environment Facility and the International Development Research Centre to exchange ideas on their evaluation approaches and methodology, and share the results and lessons generated.
72. OE has completed the evaluation of IFAD's Field Presence Pilot Programme. In this regard, a stakeholder workshop was held in June with the participation of all field presence officers and others to discuss the final draft report and to lay the basis for the evaluation's agreement at completion point. Among other issues, the evaluation found that the performance of IFAD is better - in terms of providing implementation support, undertaking policy dialogue, strengthening partnerships and managing knowledge - in countries that have some form of field presence than in those without such a presence. Moreover, although the sample is limited, the out-posted country programme manager model appears to be the most effective form of country presence for IFAD. In sum, the evaluation concluded that the question for future consideration is not whether field presence is needed, but rather what form of country presence is most appropriate for an organization such as IFAD to pursue, in order to maximize its development effectiveness.
73. The evaluation of the IFAD Rural Finance Policy was also completed by OE in 2007. The evaluation recognized that IFAD is a leader in rural finance globally, in terms of volume of investment, although it was noted that the performance of IFAD's rural finance operations could be further improved. It concluded that, compared with other organizations, IFAD does not have sufficient technical staff dealing with rural finance and that greater attention needs to be devoted to quality assurance of IFAD-funded rural finance operations during the project design phase. With regard to the latter, the evaluation concluded that some of its findings coincided with those already stressed during IFAD's internal project design review phases. However, such concerns had not been adequately addressed at the time of design, thus contributing to reduced project effectiveness in some cases. Among other issues, the evaluation recommended that IFAD update its corporate rural finance policy, which was prepared in 2000.
74. The Evaluation of the Regional Strategy for the Near East and North Africa has been completed. It found that the regional strategy was generally in line with IFAD's corporate strategies and priorities, but the resources allocated were too limited for adequate implementation of the strategy through IFAD country programmes and operations. In addition, as planned, OE will initiate in the last quarter of 2007, the evaluation of IFAD's approaches and operations in Meso-America.
75. OE worked on a number of country programme evaluations (CPEs) in 2007. First, it completed the Mali CPE by organizing a national round-table workshop in Bamako to discuss the key conclusions of the evaluation and to lay the basis for the agreement at completion point. This evaluation, inter alia, highlighted the importance of paying due attention to enhancing livelihoods through viable value-chain approaches, taking full account, however, of the limitations (e.g. in terms of infrastructure, access to markets and other services) of the marginal areas where the rural poor targeted by IFAD reside.

¹⁶ IFAD Initiative for Mainstreaming Innovation, document EB 2004/83/R.2.

76. The Morocco CPE was concluded in June 2007 following the organization of a national round-table workshop in Marrakech. The IFAD programme in Morocco was found to have a satisfactory performance and impact on rural poverty reduction, particularly in terms of increased food security, diversification of income and improved productive resources. The CPE found, however, that activities related to rural finance and, in particular, marketing of agricultural produce needed strengthening, for example, by widening opportunities for agro-processing. It was also noted that the lack of a permanent IFAD presence in the country was hampering the ability to engage effectively in policy dialogue activities.
77. The Brazil and Pakistan CPEs were launched in 2007. The fieldwork for these evaluations has been completed. The preliminary findings of the Brazil CPE highlighted that the performance of the projects funded by IFAD in the country has been good, whereas non-project activities such as policy dialogue, knowledge management and partnership-building – especially with donor organizations – have been weak. Likewise, even though the evaluation found some examples of innovation, IFAD's overall capacity to promote innovations systematically needs to be enhanced. Preparatory activities related to the CPEs for Ethiopia, Nigeria and Sudan have been undertaken, and missions in Ethiopia and Nigeria will be launched before the end of the year. Finally, OE undertook four project evaluations in Belize, Burkina Faso, Pakistan and the Philippines, in addition to completing a project evaluation in Romania that had been started in 2006.
78. Work towards the preparation of this year's Annual Report on the Results and Impact of IFAD Operations (ARRI) is in the final stage. As in the past, the document will be discussed by the Evaluation Committee in October and Executive Board in December. As anticipated last year, in addition to providing the customary account of the results and impact of IFAD operations, this year's ARRI report has a much greater focus on learning than in the past. This increased focus will widen the report's contribution by drawing attention to the key issues in need of attention by Management in order to enhance the Fund's overall development effectiveness. Moreover, this will also eliminate the risk of placing disproportionate emphasis on statistical aspects, such as the trends regarding IFAD's performance, contained in the ARRI report. Trends need to be interpreted with caution, especially given that projects chosen for evaluation are not selected randomly and the sample of projects evaluated in a given year is relatively small.
79. Therefore, two learning themes - sustainability and innovation - have been selected this year. Both themes have repeatedly emerged in past ARRI reports and OE evaluations as critical areas for IFAD's development effectiveness that require further attention by the Fund. In order to initiate a debate, specific research papers were produced by OE on each of these two topics. These papers formed the basis for discussion at two workshops organized by OE with IFAD staff, to exchange views and experiences, and to identify and agree on measures to strengthen IFAD's performance in the two areas. Among other issues, the workshops revealed the need for IFAD to pay much more attention to sustainability right from project design and the importance of policy dialogue and partnerships in successfully replicating innovative approaches promoted by IFAD. Finally, this year's ARRI report will provide a list of additional key themes emerging repeatedly in OE evaluations that IFAD needs to address in the future. The report will also include a proposal, based on this list, for the two themes that should form the key learning topics for the ARRI report of the following year.
80. As per the Terms of Reference of the Evaluation Committee, OE has so far this year organized two sessions of the Committee: in April and in September. During these sessions, the Committee discussed project evaluations undertaken in Colombia, the Philippines, and the United Republic of Tanzania, in addition to a number of other key documents such as the corporate-level evaluation of the Field Presence Pilot Programme, the OE work programme and resource issues for 2008, the

President's Report on the implementation status of evaluation recommendations and management actions (PRISMA) and the IFAD Innovation Strategy, together with OE comments. In addition, OE organized the annual field visit of the Committee to Mali, which allowed the Committee to visit IFAD-funded projects on the ground and take part in the Mali CPE national round-table workshop. Eight Committee members and five Executive Board members took part, and the Chairman of the Committee submitted a written report on the visit.

81. OE has been working on completing its evaluation manual. The manual is at an advanced stage, and a final version will be issued by the end of the year, following discussions with an international expert panel that has been formed for this purpose. The manual will serve as the key reference document for undertaking project and country programme evaluations. On a related aspect, significant attention has been devoted to evaluation quality assurance consisting, for example, of internal peer reviews for all evaluations. For corporate-level evaluations and selected CPEs, OE also hires external senior advisers to provide inputs in the undertaking of such evaluations. Finally, OE was an active member of a corporate task force responsible for developing the results measurement framework, a tool that will allow Management and the Executive Board to monitor the progress being achieved by the organization against the hierarchy of development objectives that lies at the heart of the IFAD Strategic Framework 2007-2010.
82. The division has strengthened its engagement in various international evaluation platforms and processes. The Director of OE took part in the annual meeting of the United Nations Evaluation Group (UNEG)¹⁷ and also of the Evaluation Cooperation Group (ECG)¹⁸, in which OE has been invited to participate as an observer, pending the final decision on whether to admit additional organizations as full members. One OE evaluation officer is an active member of the Network of Networks on Impact Evaluations working group of the Organization for Economic Co-operation and Development/Development Assistance Committee, which is a platform for exchanging good practices and other issues related to impact evaluations. Finally, OE continued to implement its partnership agreement with the Swiss Agency for Development and Cooperation, which has provided supplementary funds for the undertaking of selected evaluation activities.
83. OE has engaged in discussions with the United Nations Development Group (UNDG) in defining its participation in the evaluation of the Paris Declaration on Aid Effectiveness. The UNDG has requested the evaluation office of the United Nations Development Programme (UNDP) to coordinate the involvement of United Nations agencies in the evaluation. In this context, OE will assess the efforts made by IFAD at headquarters and in a number of selected countries towards implementing the core provisions contained in the Paris Declaration. Likewise, OE is contributing, within the UNEG, to the evaluation of the One UN pilot initiative. This entails assisting in the undertaking of an evaluability assessment of the pilot, which would ultimately allow for a results-based evaluation of the pilot in the coming years. In addition, within the framework of the Secretary General's High-Level Panel on System-wide Coherence, OE prepared – together with the Food and Agriculture Organization of the United Nations and UNDP – the overall conceptual framework for the establishment of a United Nations-wide independent evaluation office, which was approved by the United Nations high-level committees on management/programmes, and by the United Nations System Chief Executives Board for Coordination. OE's involvement in these areas and the areas described in

¹⁷ UNEG is composed of representatives of the evaluation offices of United Nations organizations. It serves, inter alia, as a platform for exchanging experiences on evaluation methodology and good practices, planning joint evaluations across United Nations-funded projects and programmes, establishing standards and norms for evaluation in the United Nations system and so on.

¹⁸ With a broadly similar mandate to the UNEG, the ECG is composed of representatives of multilateral development banks.

paragraph 17 are new activities, which were not part of the original OE work programme for 2007.

84. Following the workload assessment carried out in 2006 for Professional staff, a workload assessment of the OE General Service staff was completed earlier in 2007. Similar to the workload assessments undertaken in other departments at IFAD in the recent past, the undertaking of the OE workload assessment is a key step towards enhancing the overall management and performance of the division's human resources. The assessment concluded that the workload was generally very heavy, but rather than proposing an increase in General Service staff, OE opted for introducing measures aimed at increasing the efficiency of the entire OE team. This assessment brought up a number of issues that the division is addressing with due attention. For this purpose, OE has set up a number of "improvement working groups" within the division to address each issue arising from the assessment. The annual mid-year divisional retreat provided the opportunity to discuss the topic further. OE benefited from the participation of the Director of Evaluation of UNDP at the retreat, who shared UNDP's approaches and experiences in tackling situations similar to those faced by OE.

IV. Taking stock of 2007

85. Before defining its priority areas, work programme and resource requirements for 2008, OE reviewed the experience in implementing its 2007 work programme and budget. Some key issues are summarized below.
86. Experience over the past years has illustrated the value of using ratings in evaluations as a means of assessing project performance and impact. However, at the same time, OE increasingly recognizes the need to enhance consistency in applying the rating system across all evaluations in order to minimize inter-evaluator variability. In addition to this consideration, the importance of understanding and providing **comprehensive** explanations for the causes of good or poor performance in all evaluations is an area that requires more attention. Some steps to be taken in this respect would be to devote greater efforts at the outset of each evaluation to systematically briefing consultants in the use of various data collection instruments and reporting formats, consistently undertake internal peer reviews of evaluation reports, and compile (in the context of the evaluation manual) good practice examples¹⁹ for staff and consultants to follow in implementing evaluations under their responsibility.
87. The challenging area of consultant management has been highlighted in previous years, and addressed on an issue-by-issue basis. However, given the centrality of the role of consultants for the work of OE, the topic needs to be tackled energetically and in a more integrated fashion. In fact, one of the OE improvement working groups is devoted exclusively to this theme, and a concrete proposal has been devised, which consists of developing a database of consultants for evaluation, formulating guidelines for determining the level of effort for different types of consultants, establishing approaches for identifying new consultants and criteria for evaluating consultants' performance, and so on. Most of these activities will be undertaken in 2007, in particular, the establishment of the database, although some may have to be implemented next year.
88. As per the terms of reference of the Evaluation Committee, OE periodically organizes field visits for the Evaluation Committee (see paragraph 15). These events have proved to be very useful, as they allow Committee members to interact directly with project beneficiaries and other stakeholders in partner countries, and to participate in the final stages of higher-plane evaluations. A

¹⁹ For approach papers, terms of reference, aide memoires, evaluation reports, etc.

number of field visits have been undertaken in the past years.²⁰ Given the importance and periodicity of these events, efforts will be made to further improve the design of such field visits to maximize the opportunity for Committee members to interact with the rural poor and their communities, and also to assess the results of activities funded by IFAD on the ground.

V. OE priorities for 2008

89. OE has four priorities for 2008, which take into consideration the need to satisfy the requirements of the Evaluation Policy and the terms of reference of the Evaluation Committee.
90. These **four main priority areas** are:
 - (a) conducting of selected corporate-level, country programme, 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.
91. 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 required. Under this priority, OE will complete a number of evaluations that were initiated in 2007. These include first and foremost the joint evaluation with the AfDB on agriculture and rural development in Africa and the evaluation of IFAD's capacity to promote replicable innovations for rural poverty reduction, in addition to the evaluation of IFAD's approaches and operations in Central America.
92. In April 2005, IFAD's Private-Sector Development and Partnership Strategy and the IFAD Policy on Sector-Wide Approaches (SWAp) for Agriculture and Rural Development were approved by the Executive Board. In so approving, the Board requested that OE undertake, in 2008, an evaluation of each initiative.²¹ However, in order to give more time to the implementation of the private-sector strategy, OE proposes that this evaluation now be initiated in 2009 (the Board originally requested OE to initiate this towards the end of 2008). The evaluation of the SWAp policy will commence as planned in 2008. The proposed sequencing of these evaluations will be consistent with the previous agreement of the Board for OE to limit the number of corporate-level evaluations in any one year, given the complexity of such evaluations and the level of engagement required by Management to effectively participate in such evaluation processes.
93. As mentioned above, in coordination with the UNEG and UNDG respectively, OE is involved in the evaluations of the One UN pilot initiative and the Paris Declaration on Aid Effectiveness. With regard to the evaluation of the Paris Declaration, in 2008, OE's contribution will include participating in the development of the evaluation framework and in the evaluation of the results achieved. With regard to the evaluation of the One UN pilot, OE will contribute to the development of the methodology for the independent evaluation of the pilot initiative, which will take place in 2009/2010, and will assist in the preparation of guidelines for country self-assessments in 2008/2009.
94. OE will finalize the CPEs of Brazil, Ethiopia, Pakistan, Sudan and Nigeria that commenced in 2007, and initiate CPEs in three new countries. Additionally, OE will work on five or six new project evaluations involving all regions. In fact, the exact number and types of evaluations to be conducted in 2008 will be determined by a

²⁰ Field visits have been undertaken in the following countries since 2000: the Syrian Arab Republic, Indonesia, Mexico and Mali.

²¹ See documents EB 2005/84/R.4/Rev.1 and document EB 2005/84/R.5/Rev.1.

review of actual progress in the implementation of the 2007 work programme to be undertaken in September 2007 and other considerations that may arise at that time. The final proposal for the evaluations to be included in the 2008 work programme will be contained in the OE work programme and budget document to be submitted for the consideration of the Evaluation Committee in October 2007.

95. Under priority area (b), OE will prepare the sixth ARRI report, and present it to the Evaluation Committee in October and Executive Board in December 2008. OE will review and prepare its comments on the PRISMA report, Portfolio Performance Report and Development Effectiveness Report (to be prepared by Management), which will each be discussed by both the Evaluation Committee and the Executive Board. In addition, next year OE will prepare its 2009 work programme and budget, and present same to the Evaluation Committee and Executive Board for consideration, as per established practice and within the agreed time frames.
96. As per the terms of reference of the Evaluation Committee, OE will organize four sessions of the Committee in 2008, and any special sessions considered necessary by the Chairperson. In addition, OE will organize a field visit for the Committee in connection with a country programme evaluation. As in past years, the Committee will define the provisional agenda for 2008 at its last session in December 2007, including the country of destination for the annual field visit.
97. With regard to priority area (c), OE will continue its efforts to ensure that the aspects of communication and dissemination are incorporated into each evaluation from the outset. The present practice of disseminating printed copies of evaluation reports and of profiles and insights to Executive Board members and others, and the continuous updating of the Evaluation Knowledge System²² will be maintained. OE will continue to hold multistakeholder workshops in partner countries, with the aim of exchanging views and experiences on the main results and lessons learned from evaluations.
98. In terms of partnerships, OE will continue to participate actively in the discussions of the UNEG and ECG. It will also take part in selected international and regional conferences and workshops on evaluation and related themes.
99. In priority area (d), OE will continue to exercise thorough oversight to ensure that its evaluation methodologies are applied consistently across all evaluations. Towards this end, among other measures, evaluation mission leaders will be required to come to IFAD headquarters at the outset of each evaluation for briefing and for part of the report-writing phase. Similarly, the participation of mission leaders as well as the designated OE lead evaluator in preparatory missions will be made standing practice. Finally, OE will organize a training workshop for staff and consultants on the new evaluation manual. The manual will also be presented to IFAD Management and the Evaluation Committee during the year. Peer reviews will continue to be an integral aspect of the division's quality assurance system.

VI. Human and financial resource requirements

100. The 2007 work programme and budget of OE was larger than in previous years both in terms of the number of evaluations planned and in terms of the resources required. However, as promised last year, the 2008 OE work programme and budget will be smaller in real terms than that of 2007. In particular, this has been achieved by a reduction in the number of corporate-level evaluation and CPEs planned for 2008.
101. Next year, OE expects to have the same staff requirement as 2007. It is important to note that in 2008 OE will continue to require the services of the additional temporary professional allocated in 2007 for work related to the joint evaluation with AfDB.

²² This may be accessed through the IFAD website.

102. It is foreseen that the above priorities and work programme will require a budget that is expected to entail an 8 per cent reduction in real terms as compared with the OE budget for 2007.
103. The specific budget for 2008 will be presented to the Executive Board in December 2007. The preliminary OE budget proposal for 2008, including the 2 per cent inflation factor used by the rest of IFAD, is presented in Annex IV.
104. Finally, as requested by the Audit Committee in 2006, OE will investigate the options for establishing an appropriate benchmarking ratio of its annual budget, and present the results of this analysis to the Evaluation Committee during its forty-ninth session planned for October 2007.

Zero real growth

1. In September 2005, a discussion paper on zero real growth (ZRG) was presented to the Audit Committee to address the questions raised by Committee members about IFAD's definition of ZRG. The contents of this paper are summarized below.
2. A zero real growth budget is a budget where there is no increase from one year to the next after accounting for the rate of inflation.
3. The inflation rate used can vary, depending on the location of the entity. For instance the European Bank for Reconstruction and Development (EBRD) is currently using the forecast of retail price index (RPI) inflation. However, the bank will potentially move to a "harmonized" (Eurostat) index if the use becomes more prevalent in British market. The Asian Development Bank (AsDB) uses a combination of the consumer price index of both the Philippines and the United States of America. The International Monetary Fund uses the consumer price index (CPI) for Washington D.C. The Organisation for Economic Co-operation and Development uses the French inflation rate and the World Bank uses a 90/10 mix of United States CPI and the inflation indicator for advanced economies.
4. It should be noted, however, that the local applicable inflation rate is seldom applied to the whole budget. In fact the EBRD is the only IFI, out of the six IFIs surveyed, that applies inflation to the total budget (covering staff and non-staff costs). More often, the rate used could be called a "hybrid" or composite ZRG. The results of the IFIs surveyed are presented below, and the approach adopted by each IFI is described.

Results of survey of other IFIs held in July 2005

Asian Development Bank

5. Budget increase at AsDB is broken down into two components, i.e. price increase and volume increase. The volume increase is mainly driven by budgetary resources required to support new policy mandates and AsDB-wide initiatives. Normally reflected in the form of increases in staff positions (and associated salaries and benefits costs), an increase in the number of new field offices, higher consultant services, increased business travel, and other increases resulting from projected growth in outputs/deliverables and capital expenditure through depreciation, etc. The price increase has three tiers: first, the overall pay increase, including increases in AsDB's contribution to the staff retirement plan; second, an exchange rate deflator (US\$ versus Philippine peso); and third, a combination of the CPI of both the Philippines and the United States. ZRG – in the context of AsDB budget formulation – refers to volume (or real) increases.

Council of Europe Development Bank

6. For the Council of Europe Development Bank, ZRG means:
 - For payroll expenses a "statutory" increase (annual salary index fixed by its "coordinated organizations", automatic step increments, fixed management margin for upgrading)
 - For operating expenses the French inflation rate is used.

European Bank for Reconstruction and Development

- 7. ZRG is set against an external inflation index. In the 2005 budget, the CPI was used, representing the consensus view of independent economic forecasts contained in HM Treasury.

International Monetary Fund

- 8. ZRG for the IMF is a hybrid index with three components: (i) a factor for staff salary increase based on a survey conducted by an outside consultant, (ii) a price index for travel obtained from industry sources, and (iii) an inflation increase (the CPI for Washington D.C.) for building, maintenance, and other similar expenses.

Inter-American Development Bank

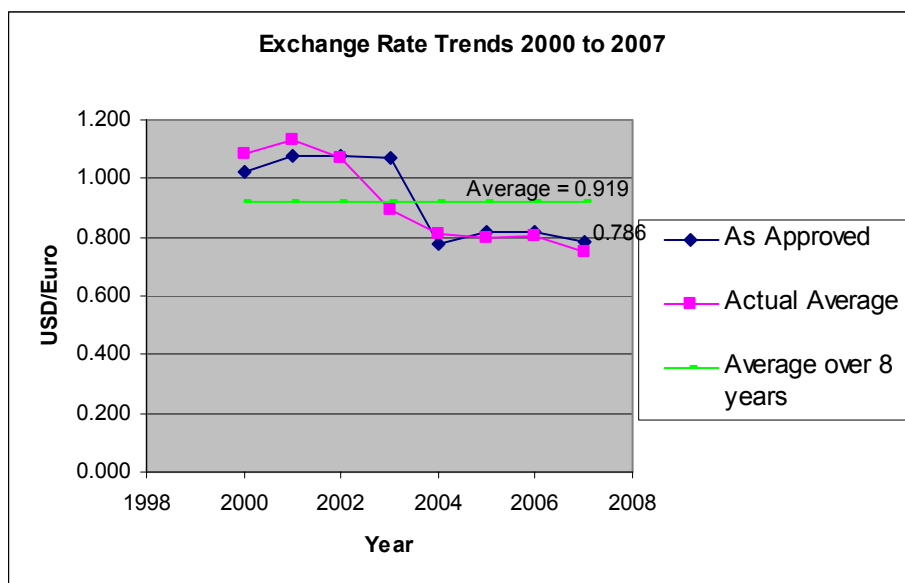
- 9. For IDB, the ZRG envelope is a weighted index of the salary scale movement (looking at the World bank and IMF movements) and non-personnel costs at the expected CPI for the budget's fiscal year.

World Bank

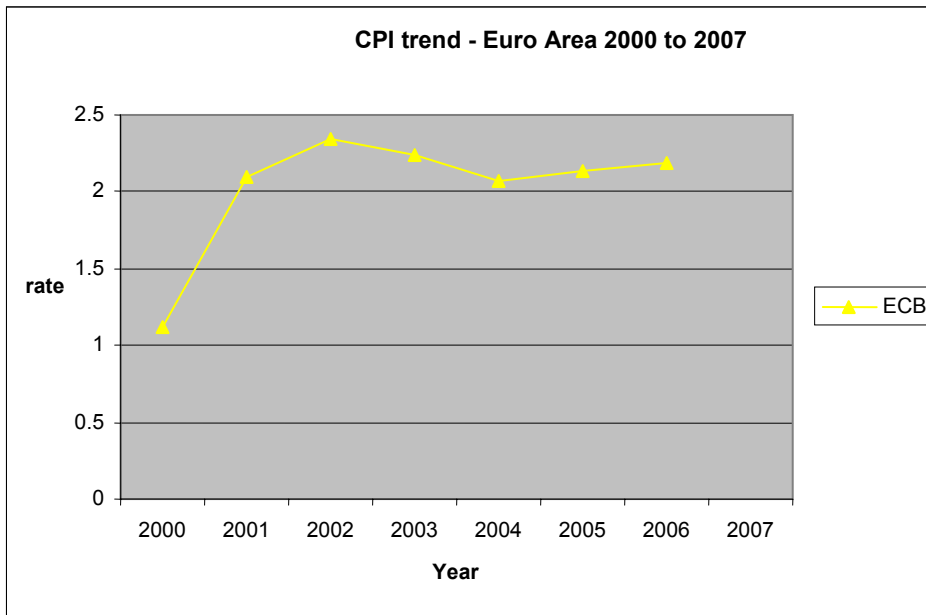
- 10. ZRG is based on the Bank's budget price adjustment, which is a composite of the Board-approved compensation increase and – for non-staff costs – a 90/10 mix of the United States CPI and the inflation indicator for advanced economies.

IFAD

- 11. One of the questions asked by the Audit Committee during its review of IFAD's 2005 Budget was: how can IFAD claim that its approach is one of zero real growth when the overall increase in the administrative budget was 5.8 per cent, compared with a rate of inflation of 2.3 per cent? IFAD management explained that the 5.8 per cent increase was affected by two factors: first, the staff cost increase that is dictated by the ICSC; and second, the extraordinary price increase relating to facility services.
- 12. The "composite" approach of applying the ICSC increase to staff costs and Eurozone inflation to non-staff costs was in line with the approach used by other IFIs.
- 13. In preparing the 2008 administrative budget, IFAD has adopted the purest definition of ZRG and applied Euro-stat inflation (2 per cent) to all costs, both staff and non-staff. Trends in CPI and EUR/US\$ exchange rates over the last eight years are shown graphically below.



* Source: European Central Bank (ECB)



* Source: European Central Bank (ECB)

OE achievements in relation to planned priorities and activities in 2007

| <i>Priority Area</i> | <i>Type of Work</i> | <i>Evaluation Activities</i> | <i>Planned Implementation Status</i> | <i>Present Status</i> |
|---|--|---|---|--|
| Priority A: Conducting of selected corporate-level, country programme, and project evaluations | 1. Corporate-level evaluations | IFAD Rural Finance Policy | To be completed in March 2007 | Completed |
| | | Field Presence Pilot Programme | To be completed in July 2007 | Completed |
| | | Regional Strategy in Near East and North Africa | To be completed in March 2007 | Completed |
| | | IFAD's Capacity to Promote Replicable Innovations for Rural Poverty Reduction | To start in December 2007 | Will be undertaken as scheduled |
| | | Joint evaluation with AfDB on Agricultural and Rural Development in Africa | To start in January 2007 | Started as scheduled |
| | | IFAD's approaches and operations in Meso-America | To start in November 2007 | Will be undertaken as scheduled |
| | | Paris Declaration for Aid Effectiveness | Activity initially not planned. To start in June 2007 | To be completed in 2009 |
| | | One UN pilot initiative | Activity initially not planned. To start in September 2007. | To be completed in 2010 |
| | 2. Country Programme Evaluations | Brazil | To be completed in December 2007 | Undertaken as scheduled |
| | | Ethiopia | To start in May 2007 | Undertaken as scheduled |
| | | Morocco | To be completed in July 2007 | Completed |
| | | Nigeria | To start in March 2007 | Undertaken as scheduled |
| | | Pakistan | To start in January 2007 | Undertaken as scheduled |
| | | Sudan | To be completed by December 2007 | To be completed in 2008 due to delay in the recruitment of lead OE evaluator |
| | 3. Project Evaluation 3.1 Interim Evaluation 3.2 Completion Evaluations | Burkina Faso, Rural Development Project in the Eastern ORD | To be completed in October 2007 | Undertaken as scheduled |
| | | Philippines, Western Mindanao Community Initiatives Project | To be completed in November 2007 | To be completed in December 2007 |
| | | Albania, Mountain Areas Development Programme | To be completed in November 2007 | To be completed in December 2007, due to unforeseen departure of lead OE evaluator |
| | | Belize, Community-initiated Agriculture and Resource Management Project | To be completed in July 2007 | Will be completed in October 2007 |

| <i>Priority Area</i> | <i>Type of Work</i> | <i>Evaluation Activities</i> | <i>Planned Implementation Status</i> | <i>Present Status</i> |
|--|--|--|--------------------------------------|--|
| | | Pakistan, Dir Area Support Project | To be completed in October 2007 | Will be completed in December 2007 |
| | | Romania, Apuseni Development Project | To be completed in January 2007 | Completed |
| Priority B: Specific evaluation work required by the Evaluation Policy and the Terms of Reference of the Evaluation Committee | 4. Evaluation Committee and Executive Board | Hold four regular Committee sessions and additional ad hoc sessions, according to the revised terms of reference and rules of procedure of the Evaluation Committee. Undertake annual field visit to Mali. | Four regular sessions in 2007 | Two sessions organized and field visit undertaken to Mali in March 2007 |
| | | Review of the implementation of the Work Programme and Budget 2007 and Preparation of the Work Programme and Budget 2008 | To be completed by December 2007 | Will be undertaken as scheduled |
| | | OE's comments on the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions (PRISMA) | To be completed by July 2007 | Completed |
| | | Fifth Annual Report on the Results and Impact of IFAD Operations (ARRI) | To be completed by December 2007 | Will be completed as scheduled and presented to the Committee in October and the Executive Board in December |
| | | OE's comments on the Portfolio Performance Review and Development Effectiveness Report | To be completed by December 2007 | Will be undertaken as scheduled |
| | | OE's comments on selected IFAD operation policies (i.e. innovation strategy) prepared by IFAD Management for consideration by the Evaluation Committee | To be completed by July 2007 | Completed |
| Priority C: Evaluation outreach and partnerships | 5. Communication Activities | Reports, Profiles, Insights, OE Website, etc. | January-December 2007 | Undertaken as scheduled |
| | 6. Partnerships | ECG, the Swiss Agency for Development and Cooperation and UNEG | January-December 2007 | Undertaken as scheduled |

| <i>Priority Area</i> | <i>Type of Work</i> | <i>Evaluation Activities</i> | <i>Planned Implementation Status</i> | <i>Present Status</i> |
|---|--|---|--------------------------------------|------------------------------------|
| | 7. Project development teams and operational strategy and policy guidance committee as required | Two project development teams per evaluation officer per year | January-December 2007 | Undertaken as scheduled |
| Priority D: Evaluation methodology development | 8. Methodological Work | Methodology Quality Assurance | January-December 2007 | Undertaken as scheduled |
| | | Evaluation Manual | To be completed in April 2007 | Will be completed in December 2007 |
| | | OE's contribution to enhance IFAD self-evaluation activities | January-December 2007 | Undertaken as scheduled |
| | | Management of consultants | January-December 2007 | Undertaken as scheduled |
| | | Peer reviews of all higher-plane evaluations and selected project evaluations | January-December 2007 | Undertaken as scheduled |

OE staff levels for 2008**(the proposed regular and temporary staffing levels are the same as in 2007)**

| | <i>Regular posts</i> | <i>Fixed-term staff^a</i> | <i>Total</i> |
|-----------------------|----------------------|-------------------------------------|--------------|
| Administrative budget | 16.5 | 3.5 | 20 |

^a These are staff members recruited through a competitive process with contract duration of a maximum of one year, renewable subject to the availability of resources.

Proposed 2008 OE budget
(United States dollars)

| | <i>2007 budget restated at 0.737 euro/US\$</i> | <i>Decrease in real terms</i> | <i>Mandatory increases</i> | | <i>2008 budget</i> |
|------------------------|--|-----------------------------------|---|------------------------------------|--------------------|
| | | | <i>2 per cent inflation^a</i> | <i>ICSC staff cost^b</i> | |
| Evaluation work | 2 990 565 | -466 955 | 59 811 | - | 2 583 422 |
| Staff costs | 2 835 130 | 0 | - | 359 989 | 3 195 119 |
| Sum | 5 825 696 | -466 955 | 59 811 | 359 989 | 5 778 541 |
| Decrease in percentage | - | -8.0% | - | - | - |

^a As for the rest of IFAD.

^b As conveyed by the Strategic Planning and Budget Division based on International Civil Service Commission data.