

Document: EB 2008/95/R.3
Agenda: 3
Date: 3 December 2008
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

**Report of the Audit Committee on the
programme of work, Programme
Development Financing Facility and
administrative and capital budgets of
IFAD and its Office of Evaluation
for 2009**

Executive Board — Ninety-fifth Session
Rome, 15-17 December 2008

For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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

Gary Howe

Director, Strategic Planning and Budget Division

telephone: +39 06 5459 2262

e-mail: g.howe@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer

telephone: +39 06 5459 2374

e-mail: d.mcgrenra@ifad.org

Report of the Audit Committee on the programme of work, Programme Development Financing Facility and administrative and capital budgets of IFAD and its Office of Evaluation for 2009

1. In accordance with procedures adopted by the Executive Board at its eighty-first session, the Audit Committee reviewed the programme of work, Programme Development Financing Facility, and administrative and capital budgets of IFAD and its Office of Evaluation for 2009 (2009 POW&B) (document AC 2008/102/R.6) at its 102nd meeting on 11 November 2008. The Committee expressed its appreciation for the clarity of the document and the continuous improvement in its presentation from year to year. The Committee presents below the topics pertaining to the 2009 POW&B that it would like to bring to the attention of the Executive Board.

I. Part one – 2009 programme of work, Programme Development Financing Facility and administrative and capital budgets of IFAD

A. Inflation and exchange rate

2. The Committee noted that the dramatic economic changes of the last three months are not reflected in the 2009 POW&B document, in that the EUR/US\$ exchange rate (0.67) used to prepare the budget is no longer realistic and the inflation rate of 3 per cent applied to non-staff costs may be a little high in view of recent developments.
3. The secretariat explained that the preparation of the 2009 POW&B document began some four months ago and that the economic forecasts prevailing at the time were used. According to procedures, the document discussed at this meeting must be identical to the one presented to the December 2008 Executive Board session. However, the secretariat agreed that more up-to-date parameters needed to be reflected in the document presented for final approval. The Committee agreed that the inflation factor could remain at 3 per cent since it is applied only to non-staff costs and consequently does not have a material effect on the overall budget.
4. It was agreed that the secretariat would table amendments to the high-level numbers in the recommendations of the 2009 POW&B to reflect the forecast EUR/US\$ exchange rate for 2009 prevailing in December 2008. The entirety of the document would be revised to take into account the conclusions reached by the Executive Board at its December 2008 session in relation to the effects of applying this exchange rate. The revised document will be presented to the Governing Council in February 2009 for approval of the administrative and capital budgets.

B. Budget execution

5. The execution of the prior and current years' detailed budgets is annexed to the 2009 POW&B document each year. In response to the request from the Audit Committee, table 2 of the 2009 POW&B document presents the high-level budget execution in 2007 and estimated execution for 2008. Table 2 shows that budget utilization is high for both the administrative budget and the Programme Development Financing Facility (PDFF). In particular, the increasing number of projects being designed and under implementation is leading to growing use of the PDFF.

C. Efficiency ratio

6. The Committee noted the reduction in the efficiency ratio from 16.3 per cent to 15.76 per cent, but as in prior years, questioned the continued utility of this ratio, the use of which was approved by the Executive Board in December 2005. The Audit Committee recognized, however, that the fact that IFAD is proposing an increase in

the combined administrative budget and PDFF of only 1.2 per cent in real terms in 2009, while raising the programme of work by 10 per cent, may be taken as signifying tangible advances in efficiency.

D. Country Presence

7. A member of the Committee noted that a full estimate of country presence costs is provided in the 2009 POW&B document and that the information presented appeared to involve a significant expansion of activities and costs relative to 2008; however, the 2009 POW&B document did not provide the rationale for these increases. The Committee was informed that a separate and comprehensive paper on the subject is being presented to the Executive Board at the December 2008 session.

E. Capital budget

8. The capital budget of US\$4 million was seen by the Committee as a positive component of the 2009 POW&B document. In particular, a number of Committee members expressed their appreciation at seeing a proposed allocation for improvements to the loan and grant system.

F. Grants policy

9. The Committee noted that the percentage of country grants with respect to the whole programme of work seems low. The secretariat clarified that grants are also provided under the Debt Sustainability Framework (DSF) and that the proportion of IFAD's assistance under the DSF may be as high as 19-20 per cent for 2008, meaning that over 20 per cent of the programme of work would actually be in the form of grants to countries.
10. It was noted that in the context of the preparation of the Report of the Consultation on the Eighth Replenishment of IFAD's Resources, Management has committed to submitting a new grants policy to the Executive Board in the course of 2009.

G. Staff

11. The Committee observed that the proportion of general service staff with respect to that of professional staff remains high. The secretariat explained that Management intends to improve this ratio and to make it more meaningful by providing a breakdown by department in order to reflect the particularities of each situation.
12. The Committee also drew attention to the fact that the percentage of Programme Management Department (PMD) staff shown in table 14 of the document is low, at 39 per cent. The secretariat explained that the volume of IFAD's workforce devoted to operations can be seen clearly only if consultants are considered; for that reason, table 15 had been included, showing the PMD workforce at 47 per cent of the IFAD total.

H. Reform of the budget

13. The Committee were particularly appreciative of paragraph 70, containing an overview of the proposed reform of the budget. The proposal is to combine the administrative budget and the PDFF into one budget that can be presented in a more transparent and modern way, and linked to IFAD's results-based management system. The secretariat added that it intends to work in consultation with the Audit Committee in preparing the 2010 budget and hoped that they would be in a position to discuss the new presentation not later than during the first quarter of 2009.

I. Preparation for the Eighth Replenishment period

14. The Committee welcomed the provisions for strengthening IFAD's capacity to handle a significantly expanded programme of work in 2010 (under the Eighth Replenishment) already made in the proposed programme of work and budgets for 2009, and recommended that the capacity to implement the Eighth Replenishment programme of work be scrutinized carefully.

II. Part two – Three-year rolling work programme (2009-2011) and budget for 2009 for IFAD's Office of Evaluation

15. The Audit Committee also discussed the 2009 budget submission for the Office of Evaluation (OE). The Committee was satisfied with the overall budget proposal, including the one-time-cost below-the-line for the conduct of OE's external peer review next year, which will also cover the IFAD Evaluation Policy. The Committee further noted that it would not be feasible for OE to introduce a cap on its annual budget in the future, given that the coverage of IFAD operations by the Fund's independent evaluation function should not be considered only in quantitative terms. Moreover, this was not a practice in other United Nations agencies or international financial institutions. Finally, the Committee discussed the possibility of inclusion by OE of additional information on the cost allocation by category of evaluations conducted in future budget submissions.