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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Governing Council – Twenty-Seventh Session

Rome, 18-19 February 2004

**PROGRAMME OF WORK AND ADMINISTRATIVE BUDGET
OF IFAD AND ITS OFFICE OF EVALUATION FOR 2004**

1. In accordance with Article 6, Section 10, of the Agreement Establishing IFAD and Regulation VI of the Financial Regulations of IFAD, and on the recommendation of the Executive Board, the President hereby presents the Programme of Work and Administrative Budget of IFAD and Its Office of Evaluation for 2004 to the Governing Council and submits the administrative budget of IFAD and its Office of Evaluation for approval.
2. The programme of work for 2004 was reviewed by the Executive Board at its Eightieth Session. A level of SDR 323 million or USD 462.5 million in nominal terms, using the traditional presentation, has been approved for planning purposes subject to review during the course of 2004. The element in deciding whether to adjust the work programme level will be the level of resources available. The Executive Board also approved a Programme Development Financing Facility of USD 29.7 million for 2004.
3. The Executive Board reviewed the proposed administrative budget of IFAD and its Office of Evaluation for 2004 and recommended that the President be authorized to submit the administrative budget of IFAD and its Office of Evaluation for 2004 to the Governing Council for approval. The Eightieth Session of the Executive Board also reviewed a proposal to amend the Financial Regulations of IFAD (Regulation VI, paragraph 2), so as to authorize the carry-over of unused administrative budget allocations, up to a level of 3%, with retroactive application to the 2003 administrative budget and authorized the President to submit this proposal to the Governing Council for its approval.
4. Accordingly, it is recommended that the Governing Council adopt the attached draft resolution, approving the 2004 administrative budget of IFAD and its Office of Evaluation in the amounts indicated, as well as the draft resolution with respect to the 3% carry-over policy.

DRAFT RESOLUTION ON THE ADMINISTRATIVE BUDGET OF IFAD AND ITS OFFICE OF EVALUATION FOR 2004**Resolution .../XXVII****Administrative Budget of IFAD and Its Office of Evaluation for 2004****The Governing Council of IFAD,**

Bearing in mind Article 6.10 of the Agreement Establishing IFAD and Regulation VI of the Financial Regulations of IFAD;

Noting that, at its Eightieth Session, the Executive Board reviewed and agreed upon a Programme of Work of IFAD for 2004 in the amount of SDR 323 million and a total Programme Development Financing Facility of USD 29.7 million;

Having considered the review of the Eightieth Session of the Executive Board concerning the proposed administrative budget of IFAD and its Office of Evaluation for 2004.

Approves the administrative budget of IFAD for 2004, as contained in document GC 27/L.4, in the amount of USD 51.4 million¹ for IFAD as well as USD 4.2 million for the Office of Evaluation, determined on the basis of a rate of exchange of EUR 0.898/USD 1.00.

Decides that in the event the average value of the United States dollar in 2004 should change against the euro rate of exchange used to calculate the budget, the total United States dollar equivalent of the euro expenditures in the budget shall be adjusted in the proportion that the actual exchange rate in 2004 bears to the budget exchange rate.

Further decides that Regulation VI, paragraph 2, of the Financial Regulations of IFAD shall be amended so as to delete the second sentence thereof. Unobligated appropriations at the close of the financial year may be carried forward into the following financial year up to an amount not exceeding 3% of the said financial year. This amendment shall enter into force upon the adoption of this Resolution and shall have effect from the financial year 2003.

¹ This figure will require adjustment in accordance with the prevailing euro/United States dollar exchange rate, as decided by the Governing Council. A document indicating the recommended rate and the resulting total budget for IFAD and its Office of Evaluation will be tabled at the Twenty-Seventh Session of the Governing Council.

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ABBREVIATIONS AND ACRONYMS

ABB	Activity-Based Budgeting
ACA	Advance Commitment Authority
ARRI	Annual Report on the Results and Impact of IFAD Operations
CLE	Corporate-Level Evaluation
COSOP	Country Strategic Opportunities Paper
CPE	Country Programme Evaluation
DFID	Department for International Development (United Kingdom)
EAD	External Affairs Department (IFAD)
ECP	IFAD/NGO Extended Cooperation Programme
FAD	Finance and Administration Department (IFAD)
IEE	Independent External Evaluation
ODA	Official Development Assistance
OE	Office of Evaluation
MDG	Millennium Development Goal
MFE	Methodological Framework for Project Evaluation
NEPAD	New Partnership for Africa's Development
PBAS	Performance-Based Allocation System
PDFF	Programme Development Financing Facility
PRSP	Poverty Reduction Strategy Paper
SCP	Strategic Change Programme
TAG	Technical Assistance Grant
TE	Thematic Evaluation

I. INTRODUCTION

A. Purpose and Structure of this Document

1. At its September 2003 session, the Executive Board considered document EB 2003/79/R.10, *Strategic Priorities and Programme of Work of IFAD and its Independent Office of Evaluation for 2004*, and provided guidance for finalization of the 2004 programmes of work and budgets of IFAD and its Office of Evaluation. On the basis of this guidance, the organization reviewed its unit, divisional and departmental programmes of work and budgets within a framework of zero real growth for the administrative budget and the Programme Development Financing Facility (PDFF).
2. This document presents for Executive Board consideration and approval:
 - (a) the proposed 2004 programmes of work and budgets for IFAD and its Office of Evaluation (OE); and
 - (b) a proposal to initiate in 2004 an activity-based budgeting approach to the planning, implementation, monitoring and reporting of the programme of work and budget.
3. The Executive Board was specifically invited to consider and approve:
 - (a) the 2004 programme of work for IFAD and OE;
 - (b) the presentation of the programme of work, with the exclusion of the PDFF portion of the grant programme;
 - (c) the PDFF resources for 2004, along with field presence costs;
 - (d) the recommendation to the Governing Council of the administrative budget for 2004 of IFAD and OE;
 - (e) the carry-over policy; and
 - (f) the 2004 programme of work and budget on the basis of the traditional presentation, with implementation, monitoring and reporting on the activity-based budgeting basis for 2004. As from 2005, it is intended to formulate the programmes of work and budgets on the activity-based budgeting basis.

As the Executive Board did not endorse (b) above, this recommendation has been deleted under paragraph 128. Furthermore for (f) above, the recommendation has been amended as requested by the Board.

4. The document is organized in four parts. The introduction sets out the purpose of the paper and introduces activity-based budgeting as IFAD starts implementing it in 2004. Part II presents the 2004 programme of work for IFAD, highlighting the resource implications of delivering such a programme of work and identifying the policy decisions required from the Executive Board. Part III presents the work programme and resource requirements of the Office of Evaluation, also for Executive Board consideration. In accordance with IFAD's evaluation policy, this information was prepared by IFAD's independent Office of Evaluation, was not subject to any review process within IFAD, and is transmitted unchanged to the Executive Board for its review and approval. The OE work programme and budget has, however, been considered by the Evaluation Committee. Part IV contains a list of recommendations being made to the Executive Board.

B. Activity-Based Budgeting

5. Prior to 2001, IFAD's programme of work and budget was a hybrid proposal in that some resource allocations were made in terms of items of expenditure, while others were made in terms of the sub-processes they supported. In addition, some resource allocations to support the project cycle were located in the programme of work/grants (project preparation), while others were in the administrative budget (e.g. appraisal, supervision, follow-up); both types of allocations had their own, different financial rules and procedures, as well as strict boundaries between them. Resource-use efficiency and effectiveness were not optimal, as a consequence of overly specific and rigid budget lines.

6. Upon the Executive Board's recommendation, the Governing Council decided in 2001 (GC 24/L.8) to bring all country programme development activities (sub-processes) and their costs under a single integrated facility with its own specific and unified rules and procedures: the Programme Development Financing Facility (PDFF). The main expected benefit of this decision was full flexibility in using resource allocations to achieve a targeted result: a fully integrated business process of country programme development.

7. With the introduction of the PDFF in 2001, a process was set in motion to move from expenditure-based to activity-based budgeting with initial focus on country programme development activities (sub-processes), ranging from country strategy development through project design to supervision and implementation support. All activities (sub-processes) and their resources were grouped under the PDFF, with the exception of regular staff costs. Country programme development costing moved to an integrated form of activity-based budgeting, under a single facility. Other parts of IFAD's programme of work and budget continued to be presented on the previous mixed basis.

8. As the next step in a gradual progression of the whole organization from expenditure-based budgeting to results-based management, IFAD is looking to generalize the integration of all costs related to a given activity under a single activity-labelled heading, i.e. activity-based budgeting. All units are being prompted to formulate their work programmes in terms of activities (from beginning to end), showing all costs and a clear statement of expected results. This approach will be mainstreamed gradually beginning in 2004, in line with the development of a supporting information-technology system by 2005. The approach, which will be adopted faster for some activities than for others, will also provide a clearer link among expenditures, the activity they support and the expected result. It also deepens the flexibility introduced in the PDFF context, and it enhances cost-effectiveness and efficiency in budget use.

9. The next challenge is then to define the activities – the foundation of activity-based budgeting. An organization like IFAD has a hierarchy of objectives, a number of priorities and a wide range of activities in various processes.

10. IFAD's hierarchy of objectives is presented in Box 1. The first level consists of IFAD's mission statement, which spells out its approach to contributing to achievement of the Millennium Development Goals. To deliver on its mission, IFAD has adopted three Strategic Framework Objectives, which constitute the second level. Finally, in order to reach its objectives, the organization needs to focus its work on a number of institutional priorities, the third level. In logical framework terms, these are the goal, the purpose and the output levels.

Box 1. IFAD's Hierarchy of Objectives

IFAD's Mission	Enable the rural poor to overcome their poverty
Three Strategic Framework Objectives and cross-cutting concerns	<ol style="list-style-type: none"> 1. Strengthen the capacity of the rural poor and their organizations 2. Improve equitable access to productive natural resources and technology 3. Increase access to financial services and markets <p><i>Gender mainstreaming</i> <i>Innovation and up-scaling</i> <i>Cost effectiveness</i></p>
Institutional Priorities	<ol style="list-style-type: none"> 1. Manage loan and grant-funded country programmes for results 2. Manage grant-funded research and capacity-building programmes for results 3. Promote inclusive and enabling poverty reduction policies at the local, national, regional and global levels 4. Manage knowledge relevant for effective rural poverty reduction 5. Mobilize and manage financial resources for rural poverty reduction programmes 6. Build strategic partnerships with other actors in rural poverty reduction, such as international financial institutions, United Nations agencies, bilateral agencies, research organizations and civil society organizations 7. Develop innovative approaches to rural poverty reduction 8. Manage institutional governance and IFAD's working environment for enhanced effectiveness
Activity Tree	<p>Level 1 – Mission statement Level 2 – Activity Level 3 – Sub-activity Expense categories</p>

11. The institutional priorities (IPs) emerged from an extensive, in-house consultative process to identify a limited number of higher-level focus activities for IFAD, i.e. operational objectives that IFAD needs to pursue if it wants to be able to achieve its Strategic Framework Objectives. These institutional priorities become organizing principles for the various lower levels of activities undertaken by IFAD. They consist of two types: (a) institutional priorities that directly create 'value' for the organization, are externally oriented and constitute the outcomes of the organization (IP 1-7); and (b) institutional priorities that indirectly enhance the 'value' of the organization, tend to be internally rooted and constitute a way to achieve objectives (IP 8).

12. With a clear hierarchy of objectives, it is possible to structure the Fund's wide range of activities, and it is proposed that this be done by institutional priority (IP). The organization's activities can then be further structured into a second level of activities at the sub-process level, and ultimately a third – more narrow – level of activities. Numerous third-level activities fold into second-level activities or sub-processes, which, in turn, fold into institutional priorities. IFAD's resource allocations would be planned, implemented, monitored and reported upon on this basis of institutional priorities.

13. This three-tier structure of activities is presented in the proposed IFAD activity tree presented in Annex 1.

II. THE 2004 PROGRAMME OF WORK AND BUDGET FOR IFAD

A. Context of IFAD's Poverty Reduction Efforts

14. The external context – i.e. the global development environment – defines the opportunities for IFAD's action against rural poverty, determines the organization's effectiveness and highlights partnership possibilities. Because the external context underlies IFAD's case and space for action in lending and grants programmes and its efforts for institutional and policy transformation, the Fund needs to understand its external environment and seek pro-actively to influence it in favour of the rural poor in support of rural poverty reduction priorities. Annex 2 provides a more comprehensive overview of the external context.

15. While several countries in eastern and southern Asia have significantly improved their economic growth levels and are making substantial progress towards achievement of the Millennium Development Goals (MDGs), the outlook for the rural poor in many other developing countries remains grim. Global economic growth is an insufficiently reliable means for reducing world poverty, and future prospects are overcast by interconnected risks related to security and conflicts, HIV/AIDS and depressed prices for commodities produced by developing countries. The situation is especially dramatic in sub-Saharan Africa, where grossly inadequate levels of growth seriously compromise the region's chances to achieve the MDGs. Central Asia, Latin America and the Caribbean, the Near East and northern Africa also depend critically on sustained growth levels to secure their MDG targets. Growth alone, however, will not guarantee that the MDGs will be achieved: growth needs to be accompanied by institutional transformation and, especially, policy changes that ensure that the poor take part in such growth. Although enormous challenges remain, recent significant developments in the policy agenda at global, national and local levels will affect the external context in which IFAD will operate in 2004.

16. The 2002 Monterrey Consensus brought about a global agreement on financing for development to help achieve the MDGs. The agreement called on developing countries to create a framework of enabling policies aimed at enhancing domestic resources for poverty reduction and on the international community to increase official development assistance (ODA), along with specific actions to promote an international trade system more supportive of development, the encouragement of debt relief and direct investment. As a result, total ODA in 2002 amounted to USD 57 billion, compared with USD 52 billion in 2001. This constitutes a conducive resource environment for leveraging IFAD's poverty reduction efforts.

17. The challenge remains, however, of channelling these additional resources towards rural and agricultural development, which was disproportionately affected by the previous decline in ODA even though 75% of the world's poorest people live in rural areas and the rural sphere supports large portions of developing country growth, gross national income, employment and exports. The Group of Eight countries and some Nordic countries, among others, have recently issued policy documents in support of rural and agricultural development as an integral and central part of a comprehensive poverty reduction strategy; some countries, such as Canada, have significantly increased their resource allocations to this sector. As these policy statements translate into individual donor responses with effective support for country-owned strategies that focus on rural poverty (e.g. poverty reduction strategy papers and sector-wide approaches), IFAD will find significant partnership opportunities for rural poverty reduction in a country-specific programmatic context.

18. The year 2004 will be critical for the Debt Initiative for Heavily Indebted Poor Countries (HIPC). Many approved country cases will reach their completion points in 2004. As a result of debt relief, significant levels of fiscal resources will become available for poverty-reducing expenditures under country-owned poverty-reduction strategies, and it is expected that integrated public expenditure tracking systems will be put in place to monitor the allocation and quality of such expenditures. A key premise of the HIPC Initiative – i.e. that debt relief should be additional to other

forms of external financing assistance – also appears to be borne out by the facts. For the 27 decision-point countries, both gross and net flows increased during 1997-2002. This will open up opportunities for IFAD to enter into country-led partnerships.

19. With better trade prospects for developing country agriculture, investments in rural economic enterprise gain profitability and contribute to poverty-reducing growth. However, this requires that the Doha Development Round effectively resume in 2004, after the recent setback of the Cancun Ministerial Conference.

20. The New Partnership for Africa's Development (NEPAD) initiative and further support at the recent Tokyo International Conference on African Development represent significant partnership opportunities for IFAD in Africa.

21. The recent creation of a global fund to tackle HIV/AIDS, malaria and tuberculosis, in addition to trust funds to fight illiteracy and polio, among others, also present the Fund with partnership opportunities (beyond the crucial Belgian Survival Fund Joint Programme) in critical areas of rural poverty related to the MDGs worldwide, but especially in Africa.

B. The 2004 Work Programme for IFAD – Institutional Priorities

22. *The medium-term strategic agenda for IFAD.* Beyond the core business of developing new country and research programmes and managing the extensive portfolio of such ongoing programmes, the strategic priorities for IFAD's 2004 work programme reflect the special character of this financial year:

- (a) implementing the policy agenda of the Sixth Replenishment of IFAD's Resources (IFAD VI), while
- (b) sustaining the momentum of the *Strategic Framework for IFAD 2002-2006* (SF), as well as
- (c) the Fund's continued attention to the *IFAD V: Plan of Action*, focused on impact enhancement, dialogue for the transformation of institutions and policies, innovation and scaling up, knowledge management and partnership-building.

23. With IFAD VI successfully concluded in 2003 with the target level of USD 560 million, the Fund aims to implement the full policy agenda negotiated at the consultations and prepared during 2003. Essentially, this entails a medium-term change programme built around:

- (a) the centrality of country strategic opportunities papers (COSOPs) in IFAD's country programme planning process and their linkage with country-owned rural poverty reduction strategies (poverty reduction strategy papers, sector-wide approaches, etc.), and the adoption of more programmatic approaches to investment for rural poverty reduction;
- (b) adoption of a revised policy framework for technical assistance grants;
- (c) introduction of a performance-based resource allocation system;
- (d) a response to the need for enhancing IFAD's engagement at the field level;
- (e) establishment of a system for systematically and comprehensively monitoring and reporting on the results and impact of its country programmes;
- (f) implementation of the action plan for gender mainstreaming;

- (g) closer and broader partnerships, especially with civil society organizations and the private sector, including even closer and more effective collaboration with the Global Environment Facility, the Global Mechanism of the Convention to Combat Desertification and the International Land Coalition; and
- (h) follow-up on the conclusions of the review of the investment policy, with stronger asset liability management and improved security of investments.

24. In addition, 2004 will see full implementation of IFAD's evaluation policy and the independent external evaluation of IFAD, which will help the Fund further define its change agenda.

25. As explained in the part of the introduction on activity-based budgeting, IFAD is planning to deliver this comprehensive set of objectives of its programme of work, its PDFF, its administrative budget and its other resource allocations on the basis of agreed, highest-level activities: the eight institutional priorities (see Box 2). The rest of this section discusses those priorities in the order shown.

Box 2. Institutional Priorities

- 1. Manage loan and grant-funded country programmes for results**
- 2. Manage grant-funded research and capacity-building programmes for results**
- 3. Promote inclusive and enabling poverty reduction policies at the local, national, regional and global levels**
- 4. Manage knowledge relevant for effective rural poverty reduction**
- 5. Mobilize and manage financial resources for rural poverty reduction programmes**
- 6. Build strategic partnerships with other actors in rural poverty reduction (international financial institutions, United Nations agencies, bilateral agencies, research organizations and civil society organizations)**
- 7. Develop innovative approaches to rural poverty reduction**
- 8. Manage institutional governance and IFAD's working environment for enhanced effectiveness**

Institutional Priority 1. Manage loan and grant-funded country programmes for results (see Tables 4 and 11 for 2004 resource allocation)

26. The core activity of IFAD is its country lending programme: (a) developing 25 new projects for approval in 2004, in addition to reserve projects (see Table 1); and (b) managing a portfolio of some 220 ongoing projects. The proposed lending programme is consistent with IFAD's Strategic Framework, the regional strategies and the strategic priorities. Moreover, as indicated in the footnoted examples, the planned technical assistance grant (TAG) programme (described below under Institutional Priority 2) is supportive of these strategic priorities and the lending programme. The examples show how the lending and grants programmes are strategically and mutually supportive.

27. **New country programme development.** The objectives of the Strategic Framework, which encompass core MDGs, have become mainstreamed determinants for IFAD's strategic priorities and the regional strategies, as well as for the Fund's policy development agenda (see Institutional Priority 3, below). While the Programme Management Department will review its medium-term operational strategy and operational requirements in the course of 2004, the strategic priorities to be pursued during the year consist of the need to:

- (a) strengthen the capacity of the rural poor and their organizations² by:
 - (i) contributing substantially to empowerment of rural poor people in order to establish a basis for sustainable improvement in income and food security against

² For instance, the TAG programme to support the organization of a farmers' forum in the United Republic of Tanzania.

the backdrop of rapid and fundamental political and economic changes that are occurring in developing country rural societies;

- (ii) empowering women by improving their access to resources³ and their participation in community management;
 - (iii) empowering ethnic minorities and indigenous peoples; and
 - (iv) expanding the capabilities of the vulnerable through greater access to self-help, local-level savings mobilization, new skills and technologies;
- (b) sharpen the inclusive (pro-poor) character of rural development policies and institutional transformation, creating a supportive public policy and institutional framework for the strategically vital areas of access by the rural poor to rural finance, markets, land and water, and technology;
 - (c) assist the rural poor in taking advantage of new market opportunities, increasing their access to market and rural infrastructure;
 - (d) increase the assets (skills, knowledge, organization, material resources and services) at the disposal of the poor, individually and collectively;
 - (e) secure equitable access to natural resources (especially water⁴ and rangelands⁵);
 - (f) raise rural, agricultural⁶ and natural-resource productivity through improved access to technology, increasing rural agricultural productivity in marginal areas,⁷ primarily through sustainable agricultural technologies;
 - (g) increase rural incomes through better access to financial capital and markets,⁸
 - (h) diversify the income sources of the poor; and
 - (i) reduce vulnerability to major threats to rural livelihoods.

28. Gender mainstreaming and HIV/AIDS⁹ are cross-cutting issues that will receive particular attention from the Fund in 2004. The design and implementation of all new projects will address the requirements of IFAD's gender action plan. Improving the understanding of how gender and HIV/AIDS issues should shape IFAD's work in the areas of strategic focus is also envisaged. In 2004, the Fund will explore operational models for reducing vulnerability to HIV/AIDS in specific regions.

29. The gradual review of the COSOPs is helping to ensure that IFAD's country programmes focus on these strategic objectives, rooted in the Strategic Framework and core MDGs; it is also integrating these country programmes into country-owned participatory rural poverty reduction strategies (e.g. poverty reduction strategy papers) and linking them into relevant sector programmes.

³ For instance, the TAG programme to provide resources for the promotion of women's access rights to land in Kenya.

⁴ For instance, the TAG extended to the International Centre for Agricultural Research in the Dry Areas for on-farm water use, and the TAG extended to the International Food Policy Research Institute for policies on water scarcity.

⁵ For instance, the TAG extended to the International Center for Biosaline Agriculture for the development of sustainable forage production systems.

⁶ For instance, the TAG to enhance agricultural productivity through agricultural research in Burkina Faso.

⁷ Cofinancing of USD 1 million has been secured for a pilot initiative in Viet Nam to establish a development model for rural areas in the central highlands.

⁸ For instance, the TAG programme in eastern Africa to support market linkage initiatives and a regional facility for operational and policy support to rural finance programmes.

⁹ For instance, the TAG programme for HIV/AIDS rural information systems in Burundi and Rwanda.

Table 1. Indicative 2004 Lending Programme

Region	Country	Project/Programme	Areas of investment
Western and Central Africa: USD 77.5 mln	1. Benin	Income-Generating Activities Project - Phase II ^a	employment generation, boosting rural incomes
	2. Burkina Faso	Sustainable Rural Development Programme in Central/North Region	improved natural resource management, dryland management, agricultural productivity
	3. Congo	Rural Development Project in the Departments of Plateau, Central and Western Cuvettes	post-conflict reconstruction through grass-roots institutional capacity-building
	4. D.R. Congo	Rural Development Revival Programme in the Equateur Province	post-conflict reconstruction through grass-roots institutional capacity-building
	5. Gambia, The	Participatory Integrated Watershed Management Project	improved natural resource management, agricultural productivity, boosting rural incomes
	6. Mali	Northern Areas Rural Development Programme	improved natural resource management, agricultural productivity, dryland management
	<i>Reserve:</i>	Central African Republic, Chad, Guinea Bissau, Nigeria and Senegal	
Eastern and Southern Africa: USD 76.0 mln	7. Burundi	Post-Conflict Reconstruction Programme	post-conflict social and economic reconstruction
	8. Ethiopia	Grain Marketing ^a	access to markets
	9. Tanzania, United Republic of	Agricultural Technology, Information and Extension Services Project	access to technology within a sector programming framework
	10. Uganda	Rural Economic Diversification ^a	access to markets within a sector programming framework
	11. Zambia	Rural Finance	access to finance
	<i>Reserve:</i>	Angola, Kenya, Lesotho and Namibia	
Asia and the Pacific:^b USD 129.0 mln	12. China^b	South Gansu Poverty Reduction Programme	strengthen the organizations of the rural poor, implement the IFAD gender action plan
	13. Indonesia	Central Sulawesi Poverty Reduction Project for Marginal Upland and Coastal Communities	strengthen the organizations of the rural poor, implement the IFAD gender action plan
	14. Laos	Rural Livelihoods Improvement Project in Attapeu and Sayaboury	strengthen the organizations of the rural poor, implement the IFAD gender action plan
	15. Nepal	Leasehold Forestry and Livestock Programme	strengthen the organizations of the rural poor, implement the IFAD gender action plan
	16. Sri Lanka	Livelihood Support and Partnership Programme	strengthen the organizations of the rural poor, implement the IFAD gender action plan
	17. Viet Nam	Decentralized Programme for Poverty Reduction	strengthen the organizations of the rural poor, implement the IFAD gender action plan
	<i>Reserve:</i>	Bangladesh, Bhutan, Iran and the Philippines	
Latin America and the Caribbean: USD 70.8 mln	18. Argentina	Indigenous Patagonia ^a	rural poverty reduction
	19. Brazil	Microenterprise Development Project in the North-East (PROGAVIAO 2)	rural poverty reduction
	20. Colombia	Strategic Rural Development Initiatives Support Project	conflict mitigation
	21. Dominican Republic	Vulnerable population ^a	vulnerable rural labourers empowerment
	<i>Reserve:</i>	Ecuador	
Near East and North Africa:^c USD 63.0 mln	22. Algeria	Rural Development in Mountain Areas ^a	access to productive natural resources and technology better watershed management and access to irrigation water
	23. Azerbaijan	North-East Development Project	participatory irrigation management (rehabilitation and institutional development), rural finance, agriculture and market development
	24. Sudan	Great Kordofan	access to productive natural resources and technology improved livestock and rangelands management
	25. Yemen	Al-Dhala Community Development Project	access to productive natural resources and technology natural resources management (mainly rangelands)
	<i>Reserve:</i>	Armenia, Jordan and Tunisia	
Total: 25 projects USD 416.3 mln			

^a Not yet in official pipeline.

^b In addition, the Rural Finance Sector Programme (China), which was part of December 2003 lending programme, will now be considered in 2004. The project will provide support for the reform of rural microfinance. Project development has been completed with no cost implications for 2004 programme development. Also, a sub-regional grant of USD 3.5 million (over a three-year period) is being planned for the Pacific islands.

^c The Division is considering a post-conflict rural poverty reduction programme in Iraq (to be cofinanced on a grant basis with other donors).

30. Annex 3 provides details on the 2004 work programmes of each regional division. Table 1 shows the tentative list of planned new country programmes, by region. It must be stressed that this tentative lending programme is subject to resource availability. The discussion below on Institutional Priority 3 presents the implications for in-country policy development and dialogue.

31. Table 2 shows how loan resources are planned to be allocated against IFAD's Strategic Framework Objectives (SO1 – strengthen the capacity of the organizations of the rural poor; SO2a – improve access to productive natural resources; SO2b – improve access to technology; SO3a – increase access to financial services; and SO3b – increase access to markets). The table shows the balanced strategic alignment of the projected lending programme, with the emphasis on the first strategic objective.

Table 2. Strategic Alignment of the Planned 2004 Lending Programme
(Based on currently planned projects)

IFAD Regional Division	Allocation to Each Strategic Framework Objective (USD million)					
	SO1	SO2a	SO2b	SO3a	SO3b	Total
PA	23.2	13.8	21.9	12.6	6.0	77.5
PF	16.0	0.0	17.0	10.0	33.0	76.0
PI	44.6	36.6	17.4	15.4	15.0	129.0
PL	49.8	7.5	6.5	1.5	5.5	70.8
PN	12.2	15.0	5.1	17.9	12.8	63.0
Total	145.8	72.9	67.9	57.4	72.3	416.3
	Allocation to Each Strategic Framework Objective (%)					
	SO1	SO2a	SO2b	SO3a	SO3b	Total
PA	30.0	17.7	28.3	16.3	7.7	18.6
PF	21.1	0.0	22.4	13.1	43.4	18.3
PI	34.6	28.4	13.5	11.9	11.6	31.0
PL	70.3	10.6	9.2	2.1	7.8	17.0
PN	19.4	23.8	8.0	28.5	20.3	15.1
Total	35.0	17.5	16.3	13.8	17.4	100.0
PA – Western and Central Africa PF – Eastern and Southern Africa PI – Asia and the Pacific PL – Latin America and the Caribbean PN – Near East and North Africa						

32. While the 2004 lending programme is structured in accordance with the regional lending shares agreed upon in 1999, the Executive Board will have before it, at its December session, a progress report on implementation of the performance-based allocation system (PBAS) that would start determining the country lending programmes for 2005 onwards. In 2004 a significant amount of work would be involved in completing the country assessments that will be the basis for work on the PBAS.

33. **Managing the ongoing project portfolio.** Managing the large portfolio of ongoing projects calls for carefully planned, coherent and coordinated action. This action will be reinforced through the TAG programme. For the Programme Management Department, the main areas of results-oriented action in the context of project implementation consist of:

- (a) increasing participation by country portfolio managers in supervision missions, especially those where annual work programmes and budgets are developed, thus ensuring an IFAD presence when important implementation decisions are made;

- (b) enhancing programme management capacity, which is key to project sustainability, by building the management capacity of programme-related staff (in generic and subsector-specific areas) and facilitating the exchange of experience among programmes and associated stakeholders;
- (c) increasing IFAD's field presence (through 15 pilot initiatives, see document EB 2003/80/R.4) so as to better respond to and shape emerging local views on the need for and direction of change, and reinforcing field capacity through local resource persons and institutions;
- (d) developing national¹⁰ and regional capacity¹¹ to build project-level, national and regional operational and management capacity and to complement the programme implementation support activities of IFAD and its cooperating institutions in key strategic areas (e.g. rural finance and market linkages);
- (e) strengthening the institutional and policy-development dimensions of projects (e.g. investment in local capacity and systems of representation), with increased gender mainstreaming and the enhanced participation and representation of women;¹²
- (f) improving results management¹³ and monitoring capacities¹⁴ by introducing participatory impact monitoring methods and customizing and implementing IFAD's monitoring and evaluation guidelines; and improving impact planning and assessment in ongoing projects by scaling up two activities piloted in 2002 (nutrition monitoring and institutional assessment) and disseminating the knowledge through Internet-based networks of projects fighting poverty;¹⁵ and
- (g) improving the national-level (and IFAD's) learning processes through more systematic impact monitoring and analysis, portfolio reviews and thematic evaluations.

34. In support of these efforts, the Executive Board will consider – at its December 2003 session – a framework for a results management system for IFAD's loan-supported country programme (document EB 2003/80/R.6).

Institutional Priority 2. Manage grant-funded research and capacity-building programmes for results (see Tables 4 and 11 for 2004 resource allocation)

35. In 2004, IFAD will manage its important portfolio of ongoing grant-funded programmes, in addition to developing a number of new ones, in partnership with the recipient organizations and other stakeholders. In this context, the Technical Advisory Division will continue to promote strategic partnerships with other donors, international agricultural research centres and national agricultural research systems, including its Global Forum on Agricultural Research partners. As a consequence of the increase in the volume of grant funding (in response to the IFAD VI Consultation) and because grants, typically, are smaller in size, the number of such grant-funded operations is expected to increase significantly, even though zero real growth will be maintained in the PDFF and the administrative budget. In 2004, governance and management of the grant programme will be revisited to deliver the revised grant policy in light of the decision taken at the December 2003 session of the Executive Board.

¹⁰ For instance, a TAG to strengthen management capacity in IFAD projects in western Africa.

¹¹ For instance, the TAG extended to the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty-Alleviation Projects in Latin America and the Caribbean (Phase III) will give priority to innovative and cost-effective ways of measuring impact.

¹² For instance, the ongoing NENA and CEN gender mainstreaming programme and the participatory irrigation management programme.

¹³ For instance, the Near East and North Africa Management Training in Agriculture Programme.

¹⁴ For instance, a regional TAG for strengthening monitoring and evaluation support to ongoing projects in western Africa.

¹⁵ For instance, through the Knownet electronic network and regional workshops; and the sharing of knowledge and experiences among various stakeholders will be promoted through Electronic Networking for Rural Asia/Pacific.

36. IFAD intends to allocate grant resources in a strategically prioritized manner: focus on pro-poor technology development; support rural institutional capacity-building; promote pro-poor policies; pilot innovative approaches to rural poverty reduction; and secure the required impact and knowledge management dimensions of these efforts. Pending the Board's deliberations on the revised grant policy at the December 2003 session (document EB 2003/80/R.5), the grant proposals for 2004 have been planned under the traditional categories of: agricultural research (both CGIAR and non-CGIAR); other research, training and other; and the IFAD/NGO Extended Cooperation Programme (ECP). The agricultural research and training programme (which would fall under the regional/global grant window in the new grant policy paper) is one of the major sources of pro-poor knowledge and of effective rural poverty reduction instruments, models and know-how at the grass-roots level. Some of the proposals so far identified have been reflected in the work programme under IFAD's regional work programmes (see Annex 3).

37. It is also important to establish strong strategic linkages between these limited grant resources and IFAD's country strategies (COSOPs), as well as its policy development and knowledge management efforts, as specifically highlighted in the respective sections above and below. To this effect, a number of measures are planned for 2004 to address the need for:

- (a) ensuring that proposed activities financed through TAGs and supplementary funds clearly reflect the same Strategic Framework regional and country priorities that guide the lending programme, namely:
 - (i) securing gender mainstreaming, ensuring a greater gender focus in ongoing and new projects through continuation of training programmes initiated in 2003, supporting gender-sensitive project design and initiation of innovative pilot activities intended for upscaling (Norwegian and Italian supplementary funds);
 - (ii) emphasizing pro-active development and follow-up of agricultural research TAGs with a view to addressing agricultural productivity issues;
 - (iii) supporting rural poverty issues, which lie at the centre of IFAD's regional work, such as women's land access and rights, HIV/AIDS rural information system requirements, market linkage, and conservation farming;
 - (iv) boosting socio-economic capabilities; and
 - (v) building on indigenous knowledge (related to technical issues and to traditional organizational structures);
- (b) establishing regional implementation support mechanisms for rural finance and market linkage operations, complementary to support from IFAD and cooperating institutions;
- (c) introducing a competitive grants system among national partners to ensure greater rigour and responsiveness to farmer priorities;
- (d) promoting direct synergy between loans and grants (for instance, through the Cotonou Action Plan and the revised agricultural research strategy);
- (e) directly supporting effective project implementation (e.g. with a TAG to strengthen management capacity in IFAD projects, and a TAG to strengthen monitoring and evaluation support to ongoing projects); and
- (f) promoting knowledge exchange (among grant-funded programmes, and between grant and loan-funded programmes) on best practices.

Institutional Priority 3. Promote inclusive and enabling poverty reduction policies at the local, national, regional and global levels (see Table 11 for 2004 resource allocation)

38. IFAD seeks to achieve impact not only in terms of measurable and sustainable reduction of rural poverty, but also in terms of changing the institutional and policy framework to empower all rural poor, not just direct project beneficiaries. To this effect, it pursues policy development (including dialogue) at different mutually supportive levels.

39. **Country and regional-level policy development.** This level of policy dialogue is, by definition, country and region-specific (see Annex 3 for specific details by region), but the Programme Management Department, in collaboration with other units in IFAD, is defining a framework for approaches to and priorities in policy development. This includes giving attention to:

- (a) promoting inclusive (pro-poor) enabling policies and scaling up successful initiatives;
- (b) conducting policy dialogue in partnership with government, civil society, like-minded donors¹⁶ and other stakeholders;¹⁷ strengthening staff capacity for policy analysis and dialogue; and enhancing direct participation by IFAD staff and IFAD field collaborators in national policy and programme development and coordination mechanisms;
- (c) supporting the implementation, participatory monitoring and review of poverty reduction strategy papers (PRSPs) to enhance their rural poverty and production focus, and supporting as well the establishment of regional networks for sharing PRSP experience;
- (d) focusing on the development of appropriate legal and regulatory frameworks in areas related to the Strategic Framework Objectives, especially in the areas of:
 - (i) grass-roots institutions,
 - (ii) gender mainstreaming,
 - (iii) pro-poor governance, government decentralization, and decentralization of public-sector organizations,
 - (iv) reform of land tenure systems,
 - (v) effective delivery of rural services, and privatization,
 - (vi) microfinance and rural financial services, including remittances,¹⁸
 - (vii) irrigation management,
 - (viii) market access,
 - (ix) indigenous peoples, and
 - (x) strategies and institutions covering less-favoured, marginal areas and mountain areas, and rangelands management;

¹⁶ For instance, working alliances such as the Latin American and Caribbean Inter-Agency Working Group on Rural Development, which consists of IFAD, the Economic Commission for Latin America and the Caribbean (ECLAC), the Food and Agriculture Organization of the United Nations (FAO), the German Agency for Technical Cooperation (GTZ), the Inter-American Development Bank (IDB), the Inter-American Institute for Cooperation on Agriculture (IICA), the United States Agency for International Development (USAID) and the World Bank; and the Latin American and Caribbean Regional Network in Rural Finance.

¹⁷ For instance, FIDAFRIQUE will continue to be an important means of networking between regional project staff and other regional stakeholders.

¹⁸ The TAG devoted to remittances seeks to enhance their impact on poverty reduction strategies.

- (e) strengthening the policy advocacy capacity of stakeholder groups;¹⁹ strengthening especially smallholder capacity to engage in policy dialogue on the basis of organization and training;
- (f) strengthening regional²⁰ and national capacity for pro-poor rural policy assessment and development;²¹ and
- (g) increasing dissemination of lessons learned to key national and international stakeholders.

40. In relation to item (c) above, more than 45 low-income countries have interim PRSPs, 26 have full PRSPs (sometimes combined with rural-sector-oriented sector-wide approaches) and 6 countries already produce annual PRSP implementation progress reports. In 2002-03, the Africa regions (as well as the other regions, on a more country-specific basis) carried out a strategic review and action planning process for PRSP engagement of the Fund. Accordingly, IFAD is now in a position to: (a) further influence country-specific participatory PRSP processes and results; (b) review its COSOPs in that context; (c) develop its country lending programme and its policy development agenda in this framework; and (d) implement its full agenda of PRSP engagement as reflected in the IFAD VI Consultation Report. The extent of this engagement in 2004 will vary by region, and is a function of resource availability. It is however expected that enhanced field presence, the approval of country-level TAGs and partnership with other donors will facilitate this.

41. **Strategic policy development at the global level.** In direct support of this more operationally-oriented regional and country-level policy development agenda, IFAD also needs to ensure policy dialogue at levels above the regions and the countries. To this end, the Policy Division will lead cross-departmental processes to articulate pro-poor policies at those levels. Foremost among priorities is the advancement of IFAD's catalytic role in relation to poverty reduction and achievement of the relevant MDGs.

42. Such policy initiatives during 2004 will centre around a few key areas, such as: following up on the Economic and Social Council (ECOSOC) High-Level Segment focus on rural development in 2003, engaging further with the Group of Eight; following up on participation in the Microcredit Summit +7; strengthening the partnership among IFAD, the Organization of the Petroleum Exporting Countries (OPEC) and the Organization of the Islamic Conference (OIC); and engaging with the Organisation for Economic Co-operation and Development/Development Assistance Committee in developing closer coordination of IFAD and donor priorities, developing closer linkages among donor country policies and strategies. During 2004, it is also planned to enhance collaboration with the Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP) for joint positions regarding ECOSOC, the right to food, follow-up on water issues and engagement in ongoing interagency and intergovernmental processes. In addition, IFAD will contribute to and analyse reports and outcomes of major United Nations agencies, international financial institutions and intergovernmental organizations, not least for IFAD's internal learning. Other relevant activities include the *Alternative Voices* series of seminars and lectures by authorities in specific topics of relevance to rural poverty reduction.

Institutional Priority 4. Manage knowledge relevant for effective rural poverty reduction (see Table 11 for 2004 resource allocation)

43. As a financier of development programmes (knowledge-based financial products) and as a promoter of pro-poor policies, IFAD is critically dependent upon the effectiveness, quality and

¹⁹ For instance, support to the West African regional network of producers' groups.

²⁰ Collaboration with the NEPAD secretariat, through technical assistance, for the implementation of the NEPAD action plan, aimed at increasing the participation of farmer organizations and civil society in the NEPAD process, to improve treatment of smallholder-related issues.

²¹ The Western Africa Regional Hub will be an important means to facilitate policy analysis and dialogue.

timeliness of its knowledge management processes, which consist of: technical knowledge management, knowledge management through thematic groups, and communications.

44. **Managing technical knowledge.** Learning from the field across regions is crucial for the quality and impact of IFAD's operations. This learning priority provides the basis for country-level policy dialogue and advocacy and for enhancing the selectivity and effectiveness of IFAD's development interventions. The Technical Advisory Division plays a central role in this effort. Networking with other technical resource organizations, TAG management and participation in all project development teams constitute its core activities to ensure that learning adds value across geographical regions and with IFAD's partners. This learning feeds into the quality assurance function covering the technological, institutional and policy context, and responsiveness to gender and social equity concerns. The division also provides technical knowledge services in rural development, through such means as a Web-based knowledge management system linked to a broader partnership network. In 2004 the learning dimension of the division's work will be integrated more effectively with the quality assurance function. This involves bringing together the thematic approach of learning and knowledge management with the project development team (PDT) approach of programme management for impact.

45. Moreover, policy dialogue needs to be based on a policy development process whereby experience and lessons learned are distilled, validated and systematized in a transparent and accessible manner for policy dialogue at all levels. The Policy Division and the Technical Advisory Division plan to play a central role in coordinating the compilation, processing and dissemination of focused information in the form of policy papers, practical learning guidelines, decision tools, quality standards, guidance notes and policy briefs for both IFAD and partner operations. They may also play an important knowledge-mobilizing role in supporting IFAD's work on developing operational policies. This work constitutes these divisions' contribution to IFAD's broad-based policy dialogue and advocacy roles: strengthening the linkages among operations, policy and communication, and extending the catalytic role beyond the country level.

46. **Knowledge management through thematic groups.** In order to share learning across the regional divisions and within the organization on a broad, participatory and decentralized basis, the Fund has established four thematic groups (rural financial services, gender, community-based natural resource management, and institutional transformation). Each group consists of about 10 operational staff members from different units/departments. The groups rely on the availability of limited amounts of, essentially, supplementary funds, beside their own limited staff time;²² they define their own work programmes and produce a wide variety of knowledge products; and they work on a semi-formal and horizontal basis. These groups play a potentially important role in ensuring that experiences and lessons from the field are analysed, captured in the form of good practices, operational policies, strategy papers and position statements, and disseminated and operationalized within the organization. In 2004, a rapid internal effectiveness review will be undertaken of these groups' work in order to build on their strengths, while addressing identified weaknesses.

47. **Internal and external communications.** Internal and external communication are crucial to the effectiveness of IFAD's projects, programmes and operations, as well as to knowledge sharing, policy development, advocacy and fulfilling its catalytic role. In 2004, the Fund will finalize and launch a new corporate communication strategy.

Institutional Priority 5. Mobilize and manage financial resources for rural poverty reduction programmes (see Table 11 for 2004 resource allocation)

48. **Resource mobilization.** In 2004, all necessary follow-up efforts will be made to secure effectiveness of the Sixth Replenishment. The responsibility for follow-up with Member States on contribution issues has been transferred from the Finance and Administration Department (FAD) to

²² Except for the more active team leaders, an annual average of about one day per month.

the External Affairs Department (EAD). This work organization will ensure that the Fund stays on a coordinated track in terms of both Sixth Replenishment effectiveness and the preparatory work on the strategy for the Seventh Replenishment. This process will be organized as a corporate effort, led by EAD.

49. Additional contributions will be sought for IFAD's participation in the Enhanced HIPC Debt Initiative. The Fund's three-pronged resource mobilization strategy pursues: direct contributions from donors to IFAD; donor contributions earmarked for IFAD and channelled through the World Bank-administered HIPC Trust Fund; and, more crucially, IFAD's access to the core funding of the World Bank-administered HIPC Trust Fund, on a basis comparable to that of other multilateral development banks participating in the HIPC Initiative. Document Repl.VI/3/INF.3 provides more detailed background on the HIPC-related resource management issues facing IFAD.

50. IFAD's primary resource-mobilization objective relates to increasing the Fund's core funding. However, the Fund will also pursue the mobilization of supplementary funds with focus on a number of thematic areas, such as HIV/AIDS, partnership with the Global Environment Facility (GEF), bilateral partnerships for Latin America with the Inter-American Development Bank or others, and two pilot public/private partnerships (see paragraph 93 below for additional details).

51. **Financial management.** The Office of the Controller and the Office of the Treasurer have identified the following priorities in the area of resource management: implementation of the Strategic Change Programme (SCP), implementation of the asset liability management framework, and establishment of a strategic planning and budget unit.

52. Within the SCP framework, the key objective for FAD is to fully develop and implement an integrated information system that will allow IFAD to collect data, conduct analyses and report in a timely and consistent manner in line with the activity-based budgeting (ABB) approach. The implementation of this integrated system will add value to executive decision-making by providing access to this information which can be better applied to provide management with the right information, in the way that is needed to improve strategic decision-making. The expected outcomes from the SCP will therefore be stronger finance functions and better corporate performance. Institutional responsibility, accountability and prudence will be key to efficient resource utilization and risk management.

53. Adopting the ABB approach will enable IFAD to become more focused by creating and sustaining stakeholder value. Furthermore, by employing an ABB approach, the newly proposed Strategic Planning and Budget Unit will provide the basis for implementing a results-based management approach and enable IFAD to manage its resources for results by evaluating and computing strategies using best practices and forecasting processes to plan scenarios based on actual data, and to relate corporate goals to performance measurements.

54. Implementation of the asset liability management framework by the Offices of the Treasurer and of the Controller seeks to identify and track changes in operations and in the market environment and react to them with new strategies, through enhanced risk reporting and regular reviews of the investment portfolio. By implementing this framework, IFAD will be able to minimize financial risks in order to achieve its ultimate goals.

Institutional Priority 6. Build strategic partnerships with other actors in rural poverty reduction (international financial institutions, United Nations agencies, bilateral agencies, research organizations and civil society organizations) (see Table 11 for 2004 resource allocation)

55. In addition to the earlier referenced partnerships with community-based organizations, other development organizations and donors in the context of its loan (cofinancing) and grant programmes,²³ and in the context of its multi-tier policy development processes, the Fund pursues a broad range of strategic partnerships. As highlighted above, the PRSPs, as well as the less numerous Comprehensive Development Frameworks (CDFs) and the United National Development Assistance Frameworks (UNDAFs), are providing a backdrop for partnership-building between donors and governments and among donors in an increasing number of countries. More than 70 countries have PRSP-related instruments, sometimes reinforced by rural-sector-oriented sector-wide approaches that sharpen the country strategy focus on productive sectors. This provides ample opportunity for the Fund to enhance its partnerships with a wide spectrum of development actors, including (besides the civil society organizations) other multilateral and bilateral development institutions; in this connection, the Fund has specific activities planned for 2005, for instance in eastern Africa (see Annex 3). It also allows the Fund to play its role in donor coordination and harmonization efforts, as heralded in the Rome meeting in the summer of 2002. Finally the in-country consultation process related to the performance-based allocation system (PBAS) provides IFAD with an additional instrument for policy-related strategic partnership-building.

56. In 2004 IFAD will develop and present for Executive Board consideration a strategy for developing partnerships with the private sector. Another such priority partnership development effort is the broadening and strengthening of the coalition of non-governmental organizations (NGOs) for pro-rural poor advocacy. This involves facilitating the evolution of the U.S. NGO Working Group on IFAD and Rural Poverty (which is made up of United States-based NGOs) into a United States Committee on IFAD and strengthening the Monterrey Bridge Coalition, which is emerging as a strong advocacy coalition for sustainable rural development that involves key government, intergovernmental and civil society organizations, including IFAD.

57. The North America Liaison Office will also continue to track, monitor and report on emerging donor priorities evidenced at meetings of international financial institutions, United Nations forums, and major events in the region to ensure solid groundwork for the Seventh Replenishment of IFAD's Resources.

Institutional Priority 7. Develop innovative approaches to rural poverty reduction (see Table 11 for 2004 resource allocation)

58. Among IFAD's central vocations are: identifying and developing innovative, high-impact, cost-effective and sustainable approaches to rural poverty reduction; serving as a catalyst; and leveraging its field experience by promoting the replication and upscaling of successful innovations by its partners. However, success on the innovation front is unpredictable, mixed, limited, ad hoc and not well documented. A recent evaluation of IFAD's innovation capabilities has highlighted the Fund's strengths and weaknesses in this respect. Innovation remains a core *raison d'être* for the Fund, and the organization will continue to pursue innovation as a mainstreamed and cross-cutting concern in all its core business processes (i.e. loans, grants and policies). However, a capacity-boosting initiative is required. IFAD intends to mobilize in 2004, and in close pro-active and seed-funded partnership with the United Kingdom Department for International Development (DFID), additional resources to support a pilot programme of innovation initiatives (see document EB 2003/80/R.6). An inception memorandum to this effect is under preparation and will be disseminated for decision-making and broader partnership-building purposes. The two-to-three-year process and work involved, starting in

²³ The Latin America and the Caribbean TAG to the Regional Unit for Technical Assistance (Phase VI) will focus on strengthening cooperation between donors and local institutions working in Central America.

2004, will entail: development of a coherent innovation strategy; formulation of quality proposals for innovative pilot programmes; solid implementation of the pilot programmes; credible evaluation of the pilot programme; and deliberate mainstreaming of outcomes by IFAD and its partners. This initiative, supported with the DFID seed capital, will enhance the current institutional capability for innovation in the Fund and will increase the number of innovation initiatives beyond those currently being implemented. It will thus ultimately give the Fund a broader range of innovation features.

Institutional Priority 8. Manage institutional governance and IFAD's working environment for enhanced effectiveness (see Table 11 for 2004 resource allocation)

59. The management of IFAD's institutional governance and working environment is an institutional priority covering tasks carried out across departments and units. These tasks have the common trait that they are all means to achieve the ends of the organization.

60. Many of the activities in this area are services provided by units/divisions for other parts of the organization. Examples are: the Administrative Services Unit and the Management Information Systems Division, which provide services including computers and office facilities to all other units in the organization; the Office of Human Resources, which assists other divisions/units in attracting and retaining talent, instilling learning and innovation, and developing staff competencies for the implementation of IFAD's strategy; and the Office of the Secretary of IFAD, which arranges meetings of IFAD's governing bodies, translates the related documents, etc. These activities respond to demands that are at times difficult to plan and control. The resource requirements of the service units are a function of the needs of the user units and the governing bodies. Inasmuch as some of these requirements are new and rather high-cost items, it is difficult to accommodate them in a zero real growth budget context at this stage. There is therefore a prior need to review and further rationalize requests in order for these units to be able to address an increased volume of documentation and the related costs within a tight budget.

61. As mentioned in paragraph 52 above, an important activity within this institutional priority is further implementation of the SCP to streamline workflows and simplify guidelines and procedures, which will continue to affect a wide range of units and divisions across IFAD in 2004. The implementation phase of the new software packages aimed at making management processes more effective and efficient will need to be fine-tuned. The progress report on the Process Re-Engineering Programme (document EB 2003/80/R.42) contains further information on SCP implementation.

62. Another important corporate task during 2004 is the independent external evaluation (IEE). The main objective of the IEE is to determine IFAD's contribution to rural poverty reduction and the results and impact it has achieved in this area. Many parts of the organization will be involved in this opportunity to take stock and learn in the coming year.

63. In the area of management of IFAD's physical work environment, human resources management and information technology management, the following will be priorities for 2004: SCP implementation; upgrade of IFAD's security services and the IFAD headquarters building; review of workload, deployment and optimal use of staff, competency development, design of competency assessments, and implementation of the new job evaluation method (the New Master Standard, introduced by the International Civil Service Commission Common System); and development of a business continuity plan. It should be noted that several of these priorities constitute one-time costs.

64. The priorities in the area of legal services in 2004 reflect the corporate-wide nature of the services provided by the Office of the General Counsel. The Office will continue to assist the Programme Management Department in the preparation, negotiation, approval and implementation of IFAD's loan and grant programme. In addition, it will focus on issues of a corporate nature that require legal inputs, e.g. advising management in connection with staff cases, the drafting and negotiation of investment-related contracts, supplementary fund agreements, service contracts, building lease contracts and the provision of legal advice to management. Introduction of the new

policy and procedural framework in cooperation with the Office of Internal Audit will be an additional task in this area in 2004.

65. The independent objective assurance function vested in the Office of Internal Audit is designed to add value and improve IFAD's operations by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management and control processes. The priorities in the area of internal audit services for 2004 include audit work on operational processes and fieldwork, and input into the design of new SCP-related processes.

C. Resources Available

66. Management informed the September 2003 session of the Executive Board that it intended to propose an overall work programme on the order of USD 449 million, equivalent to a 3% increase (or USD 462.5 million using the traditional basis, inclusive of amounts transferred to the PDFF). This proposal is designed to maintain a stable lending level compared to prior years and will be reviewed at each Executive Board session during 2004 based on the level of resources available as well as a prudent use of advance commitment authority (ACA). The maximum amount that may be made available through ACA during the Sixth Replenishment period is three times the annual loan reflows expected for the replenishment period.

67. Table 3 gives the projections of Article 4 resources available through the end of 2004, in millions of United States dollars and Special Drawing Rights, using the latest information available as of this writing. It should be recalled that, although the programme of work is planned in United States dollars, it is approved by the Executive Board in Special Drawing Rights. The projected use of ACA in 2003 has been reduced by the receipt of advance payments in the amount of approximately USD 50 million from Sixth Replenishment contributions as well as the payment of approximately USD 12 million for contributions under provision. Excluding these payments, the trend line for use of ACA between 2003 and 2004 would have been more balanced, i.e. projected around USD 60 million for 2003 and USD 50 million for 2004. As requested by Executive Board directors at the September 2003 session, a summary table of projected 2004 resources available is provided in Annex 8 for ease of reference. Information on the latest situation of resources available is being provided separately in document EB 2003/80/R.15, which will be updated immediately prior to the Executive Board session.

Table 3. Projected Resources for Commitment 2002-2004

	USD million				SDR million			
	Estimated 2004	Estimated 2003	Actual 2002	Actual 2001	Estimated 2004	Estimated 2003	Actual 2002	Actual 2001
Committable resources at the beginning of the year ^a	0.0	0.0	0.0	66.6	0	(0.0)	(0.0)	50.7
Loan cancellations	50.0	50.0	58.7	30.0	35.9	35.9	44.9	23.4
Exchange rate adjustments		(2.3)	(12.1)	(38.8)	(7.1)	7.6	(2.6)	(30.9)
Provisions on existing contributions		12.6	8.9	10.0		9.1	6.8	7.8
Subtotal	50.0	60.3	55.5	67.8	28.8	52.6	54.3	51.0
Members Contributions ^{b, c}	155.7	212.2	112.0	135.1	111.8	152.6	85.6	105.6
Loan reflows	190.0	190.0	169.2	170.1	136.5	136.5	129.3	132.9
Investment income/(loss) ^d	79.0	75.9	26.2	(42.9)	56.8	54.5	20.0	(33.4)
Operating expenditure (including Office of Evaluation)	(56.1)	(51.0)	(40.2)	(39.5)	(40.3)	(36.6)	(30.7)	(30.9)
After-service medical coverage scheme (ASMCS)		(4.3)	(7.9)	(4.3)	0.0	(3.1)	(6.0)	(3.4)
PDFF	(29.7)	(27.6)	(26.2)	(9.7)	(21.3)	(19.8)	(20.0)	(7.6)
SCP ^e	(6.4)	(9.0)	(2.7)	(0.6)	(4.6)	(6.5)	(2.1)	(0.5)
Provision for the HIPC Debt Initiative ^f	(37.8)	(27.0)	(14.0)	(4.0)	(27.2)	(19.4)	(10.7)	(3.1)
Resources after expenses	344.7	419.5	271.9	272.0	240.5	310.8	219.7	210.5
Commitments for loans and grants ^g	(449.0)	(424.8)	(396.0)	(426.0)	(313.7)	(305.2)	(301.7)	(332.8)
Resources before ACA	(104.3)	(5.3)	(124.1)	(154.0)	(73.2)	5.6	(82.0)	(122.3)
Net use of ACA ^h	104.3	5.3	124.1	154.0	73.2	(5.6)	82.0	122.3

^a Committable resources are defined as being net of previous loan commitments and taking into account use of ACA.
^b These projections are clearly heavily dependent on the assumptions used for Fifth and Sixth Replenishment contribution payments.
^c Assumption made that outstanding Fifth Replenishment contribution payments will be received in 2003.
^d Net of projected direct charges against investment income (see Annex 4).
^e Formerly known as the 'Process Re-Engineering Programme'.
^f This relates to projected repayments for the year.
^g Commitments for loans and grants have been updated to reflect approvals at the Seventy-Sixth Session of the Executive Board. (The programme of work for 2004 is estimated at USD 462.5 million, using the traditional format.)
^h The table below shows details on the use of ACA.

Use of ACA	USD million			SDR million		
	2004	2003	2002	2004	2003	2002
Opening balance	283.1	277.8	153.7	198.7	204.3	122.3
Net use of ACA during the year ^a	104.3	5.3	124.1	73.2	-5.6	82
ACA carry forward	387.4	283.1	277.8	271.9	198.7	204.3

^a See explanation in paragraph 67.

D. The Programme of Work and Budget

1. Traditional Presentation

(i) The Programme of Work – Loans and Grants

68. The proposed programme of work for 2004 (loan and grant programme) is planned at a level of SDR 323 million²⁴ or USD 462.5 million (see Table 5). This, using the traditional format, includes the portion of grants transferred to the PDFF. As shown in Table 5, the proposed 2004 programme of work has increased by USD 12.5 million (or 3% of the programme of work) compared with 2003. The additional resources have all been reflected in a higher grant programme in line with the recommendations contained in the grant policy document (EB 2003/80/R.5) to be considered by the Executive Board at this session. The higher proposed 2004 grant programme represents an increase from USD 20.3 million in 2003 to USD 32.5 million for 2004.

**Table 4. Proposed 2004 Programme of Work
(USD million)**

	2003 Programme of Work, inclusive of PDFF transferred items	%	Originally approved for 2003	%	Increase/ Decrease	2004 Programme of Work, inclusive of PDFF transferred items	%	Proposed 2004 Programme of Work)	%
Programme of Work:	450.0					462.5			
<i>(i) Loan programme</i>	416.3	92.5%	416.3	92.5%	0	416.3	90.0%	416.30	90.0%
<i>(ii) TAG programme</i>	33.7	7.5%			12.5	46.2	10.0%		
Grants excluding PDFF			20.3	4.6%	12.2			32.50	7.2%
Transfer to PDFF			13.4	2.9%	0.3			13.70	2.8%
Total	450.0	100.0%	450.0	100.0%	12.5	462.5	100.0%	462.50	100.0%

69. **Lending programme for 2003.** At its Seventy-Seventh Session (December 2002), the Executive Board approved a lending programme of SDR 316.7 million (USD 416.3 million) for 26-28 projects. It was agreed that this level was determined for planning purposes and that the actual level would be adjusted taking into account the use of ACA. Twenty-five projects have been submitted to the Board for approval during the course of 2003 for a total lending programme of SDR 285.85 million or USD 409.9 million. This shortfall as compared with the planned 2003 lending level is higher in SDR terms than in USD terms as a result of the strengthening of the SDR against the United States dollar (the SDR/USD rate has moved from SDR 1 = USD 1.3142, rate of approval of the 2003 lending programme, to SDR 1 = USD 1.43178 at 31 October 2003).

70. **The 2004 lending programme.** As shown in Table 5, the proposed lending programme for 2004 amounts to SDR 290.8 million (or USD 416.3 million) for 25 projects, remaining at the 2003 level in

²⁴ 2004 proposed at 1.43178 SDR/USD exchange rate of 31 October 2003.

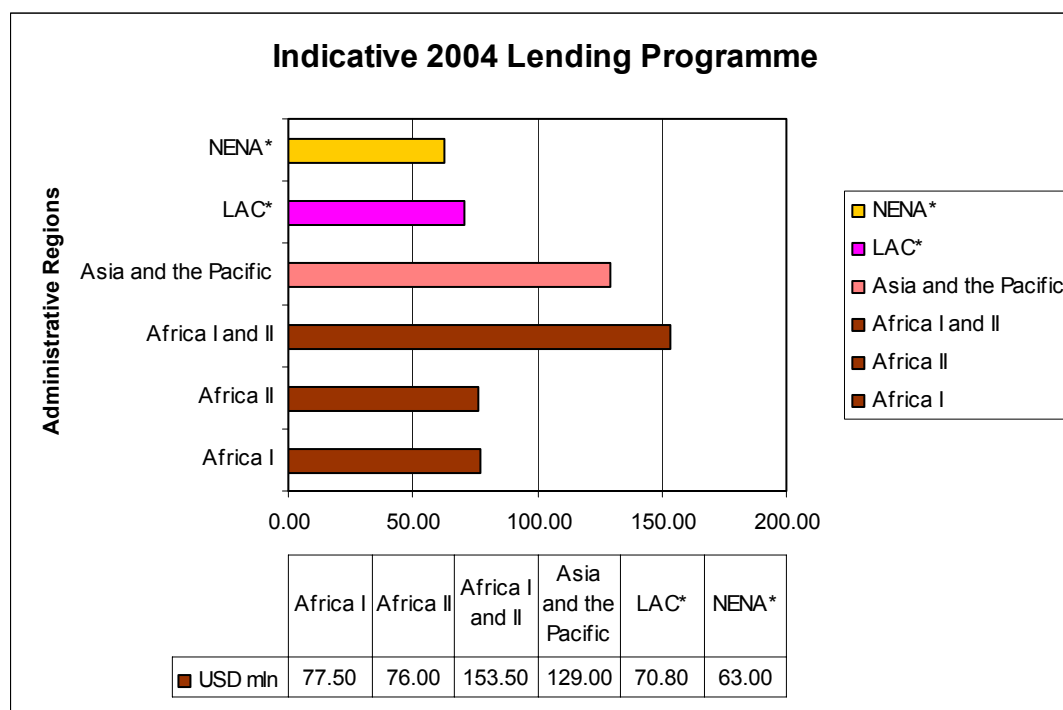
dollar terms. It will be difficult, at this stage, to accommodate a larger number of projects in light of the higher grant programme and other important initiatives to be undertaken in 2004 as outlined elsewhere herein. The proposed amounts and regional percentages are in line with the recommended revised 1999 allocation as proposed by the Ad-Hoc Committee on Regional Allocations (see Table 6). Adjustments may be required during the year to realign actual lending programmes to the recommended revised 1999 allocations, within a rolling lending programme framework.

Table 5. 2003 Approved and 2004 Proposed Programme of Work

Programme of Work ^a	Originally Approved for 2003 (USD million)	Originally Approved for 2003 (SDR/USD at 1.31420) (SDR million)	Increase/Decrease (USD million)	2004 Proposed (USD million)	2004 Proposed (SDR/USD at 1.43178) ^b (SDR million)	Increase/Decrease 2004 Programme of Work Over 2003 Programme of Work (% of USD million)
Loan programme	416.3	316.77	0	416.3	290.76	0
TAG programme	33.7	25.64	12.5	46.2	32.27	37
Grants Excluding PDFF	20.3	15.44	12.2	32.5	22.70	60
Transfer to PDFF	13.4	10.20	0.3	13.7	9.57	2
Total	450.0	342.41	12.5	462.5	323.03	3

^a Excluding items transferred to the PDFF.
^b 2004 proposed at SDR/USD exchange rate of 31 October 2003.

Table 6



* LAC = Latin America and the Caribbean; NENA = Near East and North Africa

71. **2004 grant programme.** In line with the agreement reached during IFAD VI, the Fund's total grant programme for 2004 will increase from a level of 7.5% of the programme of work to 10%, equivalent to USD 46.2 million. This 10% includes the portion transferred some years ago from the

grant area to the newly established PDFF. Once the proposed level of USD 46.2 million is netted off from the former grant portions shifted to the PDFF,²⁵ the proposed grant programme is expected to total USD 32.5 million (representing 7.2 % of the proposed 2004 total programme of work). It should be noted that amounts under the PDFF were annually adjusted for inflation/price increases, while the programme of work (loans and grants) reflects nominal values, which explains the difference between 7.5% and 7.2%. As proposed in the grant policy paper, if approved, all of the incremental grant resources available for 2004 will be applied to the country-specific grant window. This is expected to translate into additional small to medium-sized grants with an impact on grant portfolio management and administration.

72. Out of the total grant programme of USD 32.5 million, USD 10.0 million will only be allocated following Executive Board approval of the revised grant policy. As mentioned, pending the deliberations of the Board on that new policy, which was discussed at the current Executive Board session under agenda item 5 (document EB 2003/80/R.5), grant proposals have been grouped under the existing traditional categories (agricultural research; other research, training and other; and IFAD/NGO Extended Cooperation Programme), totalling approximately USD 22.5 million. In terms of allocation of grant resources, it is currently planned to earmark approximately USD 11.0 million under the traditional category of *Agricultural Research (CGIAR/non-CGIAR)*, USD 9.3 million under *Other Research, Training and Other* and USD 2.17 million under *ECP* (excluding the unallocated USD 10.0 million). It is to be noted that following the approval of the grant financing policy, a 50-50% split – between the two grant windows, the global and regional window and the country-specific window – has been adopted for the grant programme starting in 2004.

Table 7. Approved 2003 and Proposed 2004 Technical Assistance Grant Programme

	2003			2004 ^a		
	Originally Approved (SDR million)	Originally Approved (USD million)	% of Overall TAG Programme	Proposed (SDR million)	Proposed (USD million)	% of Overall TAG Programme
Agricultural research	6.38	8.38	41.3%	7.65	11.00	33.8%
Other research, training and other	7.17	9.42	46.4%	6.49	9.33	28.7%
ECP	1.90	2.50	12.3%	1.51	2.17	6.7%
Unallocated				6.96	10.00	30.8%
Total	15.45	20.30	100.0%	22.61	32.50	100.0%

^a Provisional presentation pending decisions regarding the grant policy paper submitted to the December 2003 session of the Executive Board (document EB 2003/80/R.5).

(ii) The Programme Development Financing Facility

73. The 24th Session of the Governing Council approved the establishment of the Programme Development Financing Facility (PDFF)²⁶ in 2001, separate from the programme of work and the administrative budget of IFAD, to finance the expenditures required for the design and implementation of projects and programmes funded by IFAD loans and grants. The level of the PDFF has remained constant in the context of the zero real growth policy, adjusted to reflect inflation/price increases. For 2004, it is proposed to maintain a level of USD 28 448 000, excluding the amount required for field presence as provided in the next paragraph. The proposed 2004 PDFF has been maintained at the 2003 real level even though the following activities are foreseen for next year: (a) 3% increase in the programme of work, and the resulting larger grant programme; (b) the need to build up the project pipeline; and (c) the goal of fostering impact achievement in the context of programme implementation while ensuring proper follow-up of IFAD's ongoing portfolio. It has been possible to redeploy USD 299 000 from early implementation support activities in view of the slightly lower number of

²⁵ Early implementation support (former Special Operations Facility, environmental assessment, Project Development Fund, and accelerated project performance and other implementation support).

²⁶ The PDFF evolved from the integration into a single and separate envelope of the Project Development Fund (formerly project preparation grants) with the resources in the administrative budget for the project/programme development cycle.

proposed projects in the 2004 lending programme as well as USD 108 000 from other implementation support and USD 85 000 from cooperating institution charges in view of the slightly smaller expected 2004 project portfolio for which charges are incurred (214.4 Full Project Equivalents [FPEs] compared with 211.5 FPEs in 2003, as per Annex 4). In addition, despite a slightly lower number of FPEs, i.e. projects for which IFAD receives charges from its cooperating institutions, some IFAD-initiated projects that are administered but not cofinanced by the World Bank will bear a higher cost as a result of the expected work. PDFF resources have been increasingly used for in-country policy dialogue and various forms of services to Member States, both in the context of COSOPs and through involvement in PRSPs. The aforementioned reallocation of resources together with a projected 2003 carry-forward of approximately USD 3.5 million, somewhat higher than the amount carried forward from 2002, should allow for coverage of 2004 project development requirements within the zero real growth framework.

74. At its September 2003 session, the Executive Board was informed that the PDFF proposal was premised on zero real growth. It was clearly stated however that this was based on the understanding that requirements stemming from the field presence pilot programme would be additional and dependent on the methodology approved by the Executive Board. The pilot programme was approved at the September 2003 session as a three-year pilot programme with an overall budget for a maximum of 15 initiatives limited to USD 3 million. For this reason, the USD 1.2 million requirement foreseen in 2004 is shown as an additional separate item in Table 8. The remaining amount will span over 2005 and 2006. There is agreement that, between December 2003 and April 2004, up to 15 country pilot programmes for enhancing IFAD's field presence would be initiated to test a series of approaches.

Table 8.
Programme Development Financing Facility, Including Cooperating Institution Charges

	USD '000			
	2003	2004		
	Approved Allocation	Real Increase (Decrease)	Price Increase	Proposed Allocation
New project/programme development	12 313	13	187	12 513
Project/programme design: ^a				
Lending programme	8 617	59	133	8 809
Grant programme	593	88	10	691
Early implementation support ^b	1 762	(299)	26	1 489
Strategy development	1 341	165	18	1 524
Ongoing project portfolio	4 709	(27)	84	4 766
Supervision and follow-up ^c	2 911	116	50	3 077
Other implementation support	1 277	(108)	29	1 198
Country portfolio review	521	(35)	5	491
Staff travel	1 734	91	24	1 849
Cooperating institution charges^d	8 807	(85)	598	9 320
Total	27 563	(8)	893	28 448
Field presence ^e				1 210
Grand total				29 658

^a Includes charges for COSOP, inception, formulation, appraisal and environmental assessment.

^b Formerly the Special Operations Facility.

^c Includes charges for direct supervision, follow-up and supervision of grants.

^d Depending on the outcome of negotiations with the United Nations Office for Project Services (UNOPS), the total cooperating institution charges figures may need to be adjusted.

^e See paragraph 74.

(iii) The Administrative Budget and Human Resources

75. Management proposes to maintain the 2004 administrative budget at the same real level as that of 2003. Table 9 provides the comparison between 2003 and 2004 using the traditional basis. The 2003 administrative budget was originally calculated at EUR 1.070/USD 1.00 for a total of USD 45 197 000 when reviewed by the Seventy-Seventh Session of the Executive Board. At the 26th Session of the Governing Council, the Executive Board was authorized to approve any funding still required – after the receipt of voluntary contributions – for the independent external evaluation (IEE) of IFAD. The Board was advised that the funding requirement for this was USD 1 700 000. The 2003 allocations therefore total USD 46 897 000, including the IEE under the heading *One-Time Costs*. When restated for comparison purposes, using the latest projected average rate of EUR 0.898/USD 1.00, the restated total including this amount is USD 48 161 000. The new evaluation policy approved at the Seventy-Eighth Session of the Executive Board provides that the Office of Evaluation (OE) will follow a separate process with respect to its annual work programme and budget for 2004 and onwards, submitting its work programme and budget directly to the Board for approval. The latter is contained in Section III and, to ensure consistency in comparison for IFAD overall (excluding OE) between 2003 and 2004, a further column adjustment is provided in Table 9 that reduces the 2003 baseline by the OE 2003 allocation.

76. The one-time costs for 2003 are presented separately and details on the 2004 amount totalling USD 4 676 000 are provided in Table 10. The 2004 IFAD administrative budget including these one-time costs is proposed at a level of USD 51 380 000, as compared with USD 48 161 000 for 2003, using the same projected EUR/USD rate.

77. **Price/inflation adjustments.** IFAD's overall administrative budget for 2004 is proposed at USD 51 380 000, after adjustment for a general inflation increase of 2% as well as other specific price increases that are detailed below. All projected price increases used for projected 2004 expenditure in the administrative budget and PDFF proposals are listed here:

- (a) **Salary increases.** In line with standard practice, these are based on the United Nations Common System and have been calculated in close collaboration with the lead agency in Rome (FAO), taking into account any pending recommendations by the International Civil Service Commission (ICSC). These represent best estimates, made at the time of preparation of this budget document, of what is formally to be introduced during 2004:
 - (i) an increase of approximately 2.5% on salaries and post adjustment to cover annual/biennial within-grade step increases and expected movements between grades;
 - (ii) a 3% cost-of-living increase for general service staff, effective 1 November 2003; a 4% provision for the possible language factor backdated to November 2000; and a further 3% cost-of-living increase effective November 2004;
 - (iii) provision has been made for the 2% cost-of-living increase on post adjustment expected for December 2003 and a further 2% increase effective December 2004;
 - (iv) a 3% increase in pensionable remuneration for professional staff in September 2004 (the latest increase was 5.2%, effective 1 September 2003, compared with the projected increase of 3%, which was to become effective 1 November 2003);
 - (v) a further expected 15% increase in medical plan contributions and a 14.5% increase for after-service medical costs as of January 2004;
 - (vi) provision has been made for a 3% increase in the representation allowance level effective March 2004 as well as a 5% increase for rental subsidy effective Jan 2004;
 - (vii) in line with Common System practice, repatriation and separation payments are updated to the latest salary level for staff in service; as in past years, this benefit is calculated at 6.5% of net base salaries for professional staff and 12% for general service staff and is proportionate to the increases provided for salary rates;
- (b) a weighted increase of approximately 1.3% for airfares and 2% for daily subsistence allowances applicable to Rome and 1.3% for other locations worldwide;
- (c) projected cooperating institution charges for supervision and loan administration of IFAD projects reflect levels as communicated by the specific cooperating institutions, except where negotiations have not been concluded with IFAD; and
- (d) unless otherwise specified above, a general inflation rate of 2% has been applied to all Rome-based expenses based on the average projected inflation rate.

78. **Human resources.** IFAD's key objective is to attract and continue to retain high-quality staff to best fulfil the Fund's mandate of rural poverty reduction and contribute to the MDGs. To achieve this, it

is necessary to review the workload distribution with an eye to assessing the correct balance of staff and experts with appropriate skills and qualifications in the priority functions of the organization, particularly in view of the implementation of the SCP process. The terms of reference for this review of human resources are being prepared and the Office of Human Resources has moved to identify a qualified firm to undertake the study. This will be undertaken in parallel with an exercise to review pay and benefits, to be undertaken by the Office of Human Resources. It is expected that the two exercises will complement one another and draw on synergies.

79. As in previous years, and pending the outcome of this human resources study/review, the services of temporary professional experts and temporary support staff with fixed-term conditions, apart from the staff levels shown in Annexes 5C and 5D, will continue to be required in 2004. The charges for these positions, which are expected to number 31 and 33 respectively, will continue to be indicated under the administrative budget and the PDFF for project development activities. Annex 5D provides the status of human resources funded from service charges under extra-budgetary resources. In addition, a number of arrangements with donor governments to provide IFAD with experts and associate professional officers (APOs) totalling approximately 28 for a fixed period of time on a grant basis is expected for 2004.

Table 9. Comparison of 2003 and 2004 Administrative Budget using Traditional Presentation by Category and Expenditure

	2003 Budget @1.070	2003 Restated @0.898	2003 OE @0.898	2003 Budget Net of OE @0.898	Real Increase/ Decrease	Price Increases	2004 Proposed Budget @0.898	
Staff costs	32934	36722	(1756)	34966		1875	<u>36841</u>	Annex 5-A
Governing body and other official meetings	1839	2111	0	2111		69	<u>2180</u>	Annex 5-B
Other programme-related activities and studies	1876	1981	(1903)	78		1	<u>79</u>	Annex 5-E
Office and general expenses	4741	5443		5443		121	<u>5564</u>	Annex 5 F
Other operational expenses, including policy and resource mobilization	1895	2080	(313)	1767		41	<u>1808</u>	Annex 5 G
Contingency items for unforeseen expenses	100	100		100			100	
Sub-total	<u>43385</u>	<u>48437</u>	<u>(3972)</u>	<u>44465</u>	<u>0</u>	<u>2107</u>	<u>46572</u>	
One-time costs	<u>3348</u>	<u>3532</u>		3532	1144		<u>4676</u>	
Total	<u>46733</u>	<u>51969</u>	<u>(3972)</u>	<u>47997</u>	<u>1144</u>	<u>2107</u>	<u>51248</u>	
Extraordinary price increase	164	164		164	(32)		132	
Grand Total	<u>46897</u>	<u>52133</u>	<u>(3972)</u>	<u>48161</u>	<u>1112</u>	<u>2107</u>	<u>51380</u>	

(iv) One-Time Costs

80. Table 10 provides the comparison of one-time costs between 2003 and 2004. Although the table shows an increase of USD 1 144 000 as compared with the 2003 approved level, the total expenditure projected for 2003 is expected to be only USD 2 262 000. For some of these one-time cost expenditures not incurred in 2003, activity has been delayed and these now span into 2004, which requires they be repropose in 2004, e.g. for the independent external evaluation (see paragraph 84 below). Details on each item proposed in 2004 are provided in the following paragraphs.

**Table 10. One-Time Costs
(USD '000)**

	2003		2004	
	Budget (at 1.070)	Restated (at 0.898)	Real Increase (Decrease)	Proposed Budget (at 0.898)
Sixth Replenishment tasks	1 700	1 700	294	1 994
Performance-based allocation system	0	0	300	300
Business continuity plan	0	0	514	514
Asset liability management	0	0	100	100
Independent external evaluation	1 700	1 700	(620)	1 080
Other one-time costs	1 648	1 832	850	2 682
IFAD premises	755	900	88	988
Director, Strategic Planning and Budget	0	0	169	169
Organizational review, job evaluation and new classification	0	0	560	560
Separation and placement issues			400	400
Investigation, legal cases and special audit activities	210	226	69	295
Performance indicators and monitoring platform	82	82	(82)	0
Audit Committee	116	120	-	120
IFAD's 25 th Anniversary	485	504	(504)	0
International meetings and expositions	0	0	150	150
Grand Total	3 348	3 532	1 144	4 676

(a) Sixth Replenishment Tasks

81. **Performance-based allocation system.** With the approval in 2003 of document EB 2003/79/R.2 (*The Structure and Operation of a Performance-Based Allocation System for IFAD*), the Fund has adopted a policy framework for allocating its resources under the programme of work on the basis of institutional performance of borrowing countries. As indicated in the progress report on implementation of the PBAS (document EB 2003/80/R.3), the roll-out of this initiative is structured in three phases: development, testing and implementation. The development phase consists of articulating in operational terms the performance indicators, the in-country consultation process, the internal decision-making process and management structure; and developing the procedures for portfolio assessment. This phase is expected to be completed by February 2004, using 2003 resources. The subsequent testing and actual implementation phases are slated to start in February 2004 and April respectively. These phases include: training, the benchmarking exercise, assessment of the process and results with feedback into the PBAS development process, the actual first-time country assessments, assessment review and performance scoring. This will ensure that, by the time of the December 2004 session of the Executive Board, the proposed programme of work and budget for

2005 will be driven by the PBAS. Accordingly, the PBAS needs to be put firmly in place in the first half of 2004, and this implies an upfront investment of USD 300 000 to establish the basic system and carry out the first complete set of country performance assessments. Once the system is in place and the baseline assessments completed, it is expected that the modest incremental recurrent costs of the PBAS will be internalized into the PDFF and the administrative budget.

82. **Business continuity plan and security** account for a combined amount of USD 514 000. Recent audit reviews comparing IFAD in its working environment with other international institutions have repeatedly warned of exposure to risk, and have recommended the urgent need to prepare a business continuity plan to be put into action as necessary. A one-time investment for the assessment of a business continuity plan is proposed at USD 300 000. It is expected that this investment will constitute a positive initial response to audit recommendations for the security and safety of data, resources and personnel in an increasingly uncertain international environment that calls for adequate safeguards. The costs involved in developing a well tested contingency plan cannot be underestimated and ought to be compared with the potential losses that would be caused by disruptive events. In November 2002, a security assessment of IFAD premises and of the security and safety procedures was carried out by the security services of the United Nations Office in Vienna. The assessment concluded that IFAD's security set-up and procedures were unsatisfactory in various areas according to United Nations standards. In light of the increasingly sensitive international security situation, additional security measures need to be implemented. The security assessment calls for a Security Officer post and the partial replacement of outsourced security elements with the creation of security assistant posts. It also recommends upgrading security equipment and the physical security of the premises and procedures. Pending an improvement in the international security situation, these costs are shown as one-time costs.

83. **Asset liability management.** A study on this topic has already been undertaken by IFAD, the results of which were presented to the Executive Board at an informal seminar held early in November 2003. The proposals made in the draft paper (document EB 2003/80/R.14) met with broad support. Management requests further support for the approval of a one-time cost in the amount of USD 100 000 to cover further study and development as well as partial implementation of the asset liability management framework in 2004.

84. **Independent external evaluation.** At its February 2003 session, the Governing Council authorized the Executive Board to approve any funding still required – after the receipt of voluntary contributions – for the independent external evaluation (IEE) of IFAD, which would be recorded as a one-time, below-the-line cost in the IFAD administrative budget for 2003. The detailed budget of USD 1.7 million for the IEE, as proposed by the Office of Evaluation, was approved by the Executive Board in September 2003. To date, voluntary contributions totalling USD 350 000 have been received from Switzerland and Denmark. Total commitments of USD 270 000 are projected to be made from the IEE budget by the end of December 2003. After deduction of the voluntary contributions received, IFAD has re-included a provision of USD 1 080 000 for conducting the IEE, which spans into 2004 as a one-time, below-the-line cost in the IFAD administrative budget. Clearly this amount will be reduced by further receipts expected from Canada, Norway, Sweden and other voluntary contributors.

(b) Other One-Time Costs

85. **IFAD premises.** The one-time cost item of USD 988 000 for IFAD premises represents the expenses (not reimbursable by the Host Government) to finalize work on the refurbished present headquarters building, the set-up and cleaning of offices, redeployment of work stations and the moving of staff. The renovation work is planned to be finalized at the end of December 2003 and, accordingly, such provision is required for expenses foreseen in 2004. This heading also includes the expenses for the introduction of an automated system to manage expendable supplies, pursuant to the Internal Audit recommendation, and the purchase of scanning equipment for internal mail distribution.

86. **Director of Strategic Planning and Budget (D1).** This position will play a key role in IFAD's effort towards increased cost efficiency and more effective resource utilization, the outcome of which should result in the identification of resource gaps and opportunities for strategic resource allocation. For 2004, the position is treated as a one-time investment pending the outcome of this effort and the long-term benefits of the SCP as well as the outcome of the Office of Human Resources study. It is thus anticipated that this key function will be regularized by the year 2005.

87. **Organizational review, job evaluation and new classification.** In line with key orientations under Institutional Priority 8, a one-time provision of USD 560 000 is proposed to cover the cost of implementing various strategic human resources initiatives in 2004. These initiatives consist of: (i) the review of pay and benefits as part of IFAD's participation in the ICSC pilot study, which involves review and implementation of the job evaluation methodology (Spectra), the introduction of broad-banding and pay-for-performance and senior management service; (ii) development of an IFAD competency framework and linking it to staff development needs; (iii) organization-wide training, e.g. performance management, management/leadership training; and (iv) organization-wide review to assess workload and optimum staffing levels. The provision may cover more than one budget cycle depending on the period needed to complete these initiatives.

88. **Separation and placement issues.** In order to satisfy the Fund's priorities and in accordance with current human resource strategy and the upcoming organizational review and human resources study, redeployment and separation may be expected during 2004. It is therefore requested to revert to the traditional provision, as in 2002, to cover one-time staff installations and related placement issues emerging from separation arrangements arising during the year. A higher provision of USD 400 000 is made for this item in the year 2004.

89. **Investigation, legal cases and special audit activities.** As in 2003, an amount of USD 295 000 has been provided as a contingency for expert legal and investigation advice associated with IFAD's efforts to strengthen its internal oversight mechanisms. Part of the amount will be used to conduct special investigations under the responsibility of the Oversight Committee and to free up resources in the Office of Internal Audit to support such activities.

90. The reinforcement of the IFAD Oversight Committee mandate in 2003 led to a more consistent IFAD approach in investigating allegations of irregular practices, most of which are now channelled through the Committee. The Office of Internal Audit and the Office of the General Counsel are generally tasked by the Oversight Committee with investigating such allegations; although the incidence of such assignments is not predictable, it is expected that this activity will continue claiming staff time and resources from these two offices in 2004. The proposed one-time allocation for this heading is partially intended to ensure that funds are readily available to cover increased involvement by staff of these offices as well as external expertise requirements for investigations and special audits. The introduction of the new policy and legal framework will also require additional consultancy and staff time in order to consolidate the scattered existing rules and regulations into the new policy and legal framework.

91. **Audit Committee.** In line with the Executive Board's approval given at its Seventy-Seventh Session, an allocation of USD 120 000 is provided to cover the extra costs to be incurred in 2004 under the pilot process dealing with proposed changes in the terms of reference for the Audit Committee. In 2003, it was agreed that, inasmuch as this is a pilot process, resources for the additional needs over the two-year cycle would be covered by one-time costs.

92. **International meetings and expositions.** The United Nations General Assembly declared 2005 as the International Year of Microcredit. During 2004, IFAD will work with like-minded agencies to plan activities for 2005 and to plan and produce materials for IFAD communication interventions in the international year. A global summit on microcredit is also being organized for 2005 and will link achievement of the Millennium Development Goals to poverty eradication through

the provision of microcredit and other financial services for the poor. The international year and summit are linked to the Microcredit Summit Campaign. Participation in the international year is an opportunity for IFAD to contribute its experience and knowledge to debate and decision-making processes that will improve financial services for the rural poor and increase awareness of its unique approaches to poverty eradication. Funding is required in 2004 to participate in interagency planning sessions, to develop an IFAD communication plan for the international year and to prepare for the upcoming year. Additional funding will be required in 2005.

(v) **Supplementary Funds**²⁷

93. There are four major categories of supplementary funds provided by IFAD's Member States: (i) cofinancing grants for projects and programmes supported by IFAD (e.g. Ireland, Italy and Luxembourg); (ii) funds for sectoral or thematic activities (e.g. Germany, Italy, Japan, Norway, Switzerland and the United Kingdom [DFID]); (iii) technical assistance for programme and project development, implementation, evaluation, policy dialogue and advocacy, and capacity-building (e.g. Canada, Finland, Italy and the Netherlands); and (iv) funds for other activities (e.g. international workshops or regional conferences). In 2004, IFAD will focus on the thematic areas outlined in paragraph 50 with a tentative target of USD 10 million in new funding for 2004. Illustrations of activities expected to be supported by bilaterals through the above funds include support for NEPAD, enhancement of implementation effectiveness in Portuguese-speaking countries, and land tenure. While supplementary fund resources are instrumental to deepening IFAD's impact, resource-leveraging and understanding in various sectoral/thematic areas, IFAD will continue to align opportunities for supplementary resources with its core strategic objectives as reflected in the Strategic Framework, the regional strategies and COSOPs. Where possible, multi-donor funds or programmes will be given priority over modest single-donor funds. To support such funds, the External Affairs Department (EAD) will develop and pre-negotiate thematic programme frameworks and resource mobilization, thereby avoiding over time a possible excessive proliferation of stand-alone funds that may have limited sustainability in terms of resource access for the Fund. This approach consists of facilitating the preparation of a framework document for each thematic programme and organizing a thematic seminar/consultation with subject experts, potential donors and recipients. Four such exercises are planned for 2004. It is also proposed to finance the supervision of selected grant-funded programmes.

2. The Activity-Based Budgeting Presentation

94. As indicated in the introduction to this document, IFAD is moving towards activity-based budgeting (ABB). Table 11 presents the IFAD administrative budget, including one-time costs, and the PDFF in terms of the eight Institutional Priorities described in section II (part B) above. The amounts are identical to the amounts indicated in the traditional presentation of the IFAD administrative budget, PDFF and one-time costs (Tables 8, 9 and 10), which are supported by details in the annexes.

95. The benefit of the following tables expressed in ABB terms is a more transparent presentation of the use of IFAD's resources within the context of its Strategic Framework, and a clearer link between these resources and strategy. The ABB presentation clearly identifies IFAD's business drivers and, once mainstreamed, it will allow IFAD to align, track and measure its resource use against institutional priorities, and it will assist management in allocating resources to priority activities. The presentation in Table 11 therefore provides the basis for managing strategic priorities and related change in the organization over time; the priorities may be adjusted over time in response to strategic change requirements.

²⁷ Excludes supplementary resources held in trust by IFAD for the Global Mechanism, the International Land Coalition and the Associate Professional Officer Programme.

96. This is the first year that the organization is planning and budgeting on this basis, and the amounts shown are tentative and have been arrived at in a relatively mechanical fashion. As the ABB approach is developed further, the system whereby divisions allocate their activities to the various priorities will be further refined, and the numbers allocated to the various priorities may thus change significantly. In addition, the budget will have better support from the information-technology systems to be introduced under the Strategic Change Programme.

**Table 11. Presentation of Resources by Institutional Priority^a
(USD '000)**

	Institutional Priority (IP)	IFAD Admin. Budget^b	Sixth Repl. Tasks	One-Time Costs	Total IFAD Budget	PDFF	Total
IP1	Manage loan and grant-funded country programmes for results	6 475	-	86	6 561	24 563	31 124
IP2	Manage grant-funded research and capacity-building programmes for results	1 600	-	-	1 600	1 919	3 519
IP3	Promote inclusive and enabling poverty reduction policies at the local, national, regional and global levels	3 473	300	-	3 773	2 613	6 386
IP4	Manage knowledge relevant for effective rural poverty reduction	4 733	-	155	4 888	199	5 087
IP5	Mobilize and manage financial resources for rural poverty reduction programmes	5 851	70	143	6 064	25	6 089
IP6	Build strategic partnerships with other actors in rural poverty reduction (international financial institutions, United Nations agencies, bilateral agencies, research organizations and civil society organizations)	1 970	-	-	1 970	213	2 183
IP7	Develop innovative approaches to rural poverty reduction	611	-	-	611	60	671
IP8 ^b	Manage institutional governance and IFAD's working environment for enhanced effectiveness	21 859	1 624	2 298	25 781	66	25 847
Total		46 572	1 994	2 682	51 248	29 658	80 906

^a See section II, part B.

^b Contingency is temporarily allocated to IP 8 under *Office and General Expenses* in Table 13.

97. The first column provides the number of the Institutional Priority, from 1 to 8. The second column gives the name of the Institutional Priority. The third column presents IFAD's administrative budget of USD 46 572 000 broken down into the eight Institutional Priorities. The total amount corresponds to the total presented in Table 9, which shows the traditional format broken down into *Staff costs, Governing body and other official meetings, Other programme-related activities and studies, Office and general expenses, Other operational expenses, including policy and resource mobilization, and Contingency items for unforeseen expenses*. The fourth and fifth columns show the one-time activities allocated to the appropriate Institutional Priorities (compared with the traditional presentation in Table 10). The allocations for tasks derived from the Sixth Replenishment are shown separately in the fourth column. In the seventh column, the PDFF amount of USD 29 658 000 is allocated to the eight Institutional Priorities (Table 8 presented the same total broken down into the traditional categories, e.g. new project/programme development, ongoing project portfolio, staff travel and cooperating institution charges). Finally, column 8 presents the aggregated resources of IFAD (administrative budget, including one-time costs, and PDFF) by Institutional Priority.

98. This integrated resources table shows that USD 55 059 000 (equivalent to almost 68% of IFAD's non-programme of work resources) is allocated to Institutional Priorities that are externally oriented and that create direct value-added for the organization (IPs 1 through 7 – see paragraph 11); whereas the amount of USD 25 847 000 (equivalent to 32% of the resources) provides, internally, the means to IFAD's ends, contributing indirectly to the value of the organization.

**Table 12. Presentation of 2004 PDFF Resources by Institutional Priority^a
(USD '000)**

	Institutional Priority (IP)	New Design/ Development	Ongoing Portfolio	Cooperating Institutions	Travel	Field Presence	Total
IP1	Manage loan and grant-funded country programmes for results	9 238.99	4 070.10	9 320.00	1 561.57	372.50	24 563.16
IP2	Manage grant-funded research and capacity-building programmes for results	1 140.94	544.97	-	161.39	72.00	1 919.30
IP3	Promote inclusive and enabling poverty reduction policies at the local, national, regional and global levels	1 790.31	83.31	-	106.76	632.50	2 612.88
IP4	Manage knowledge relevant for effective rural poverty reduction	182.26	12.42	-	4.79	-	199.46
IP5	Mobilize and manage financial resources for rural poverty reduction programmes	12.69	1.73	-	10.21	-	24.63
IP6	Build strategic partnerships with other actors in rural poverty reduction (international financial institutions, United Nations agencies, bilateral agencies, research organizations and civil society organizations)	63.61	15.61	-	-	133.00	212.22
IP7	Develop innovative approaches to rural poverty reduction	31.45	28.46	-	-	-	59.91
IP8	Manage institutional governance and IFAD's working environment for enhanced effectiveness	52.75	9.40	-	4.29	-	66.44
	Total	12 513.00	4 766.00	9 320.00	1 849.00	1 210.00	29 658.00

^a See section II, part B.

99. Tables 12 and 13 cross-tabulate the PDFF and administrative budget resources against the traditional expenditure categories. These tables are shown only in order to relate the ABB presentation to the budget categories under the traditional presentations of the administrative budget and the PDFF. While the 2004 programme of work and budget is presented for approval by the Executive Board and Governing Council at their respective December 2003 and February 2004 sessions on the basis of the traditional presentation, it will be implemented, monitored and reported upon using the ABB presentation. Beyond 2004, it is intended to present the 2005 programme of work and budget on the ABB basis.

**Table 13. Presentation of 2004 Administrative Budget Resources by Institutional Priority^a
(USD '000)**

	Description of Institutional Priority (IP)	Staff Costs	Governing Body and Other Official Meetings	Other Programme-Related Activities and Studies	Office and General Expenses ^b	Other Operational Expenses, Including Policy and Resource Mobilization	Total
IP1	Manage loan and grant-funded country programmes for results	6 399.80	-	-	-	75.74	6 475.54
IP2	Manage grant-funded research and capacity-building programmes for results	1 599.74	-	-	-	-	1 599.74
IP3	Promote inclusive and enabling poverty reduction policies at the local, national, regional and global levels	2 954.09	-	38.14	51.87	429.00	3 473.10
IP4	Manage knowledge relevant for effective rural poverty reduction	3 965.67	50.04	-	106.92	609.97	4 732.60
IP5	Mobilize and manage financial resources for rural poverty reduction programmes	5 593.71	-	-	93.13	163.86	5 850.70
IP6	Build strategic partnerships with other actors in rural poverty reduction (international financial institutions, United Nations agencies, bilateral agencies, research organizations and civil society organizations)	1 619.71	-	-	16.17	334.42	1 970.30
IP7	Develop innovative approaches to rural poverty reduction	611.14	-	-	-	-	611.14
IP8 ^b	Manage institutional governance and IFAD's working environment for enhanced effectiveness	14 097.14	2 129.96	40.86	5 395.91	195.01	21 858.88
	TOTAL	36 841.00	2 180.00	79.00	5 664.00	1 808.00	46 572.00

^a See section II, part B.

^b Contingency is temporarily allocated to IP8 under *Office and General Expenses*.

3. Carry-Over Policy

100. At the September 2003 session of the Executive Board, management proposed the introduction of a policy that permits the carry-over of resources allocated under the administrative budget that have not been formally committed by year-end or accrued because of unforeseen constraints. In line with the policies in place at other financial institutions, IFAD recommended a level of 3% of the budget, which was similar to that of the World Bank and would be reviewed from time to time; consensus from the Executive Board members for this proposal was received.

101. To introduce the above policy, it will be necessary to amend IFAD's Financial Regulations, specifically Regulation VI, paragraph 2, second sentence, which reads: "Unobligated appropriations at the close of the financial year shall be cancelled". As the Governing Council has the authority to make such an amendment, a recommendation has been included under section IV that requests the Executive Board's opinion on this proposed amendment. The Executive Board's views on this proposed amendment with retroactive application to the 2003 budget are therefore specifically requested.

102. As the exact amount of savings available under the 2003 administrative budget to be carried over cannot be specifically determined at this stage, it is only possible to say that an amount not exceeding USD 1.44 million would be carried over. This figure is calculated on the 2003 restated administrative budget excluding one-time costs and the OE budget, which is now provided separately. The latter may also make use of this carry-over policy after Governing Council approval of this mechanism. The final figure together with senior management's decision on activities to be financed

in the following year would therefore be notified to the April 2004 session of the Executive Board after finalization of the financial statements.

III. THE 2004 WORK PROGRAMME AND BUDGET FOR THE OFFICE OF EVALUATION

103. **Background.** While approving the IFAD evaluation policy²⁸ at its April 2003 session, the Executive Board decided that the Office of Evaluation (OE) would formulate its annual work programme and budget independently of management and submit it to the Executive Board and Governing Council for approval. The Board also decided that the OE annual work programme and budget would be presented together, but as a separate submission, with IFAD's annual programme of work and budget. Therefore, section III of the present document is exclusively devoted to OE's work programme and budget.

104. OE prepared a preview of its 2004 work programme and resource requirements, which was discussed with the Evaluation Committee and Executive Board in September 2003. Based on the guidance provided by the Board and the Committee, OE formulated a separate and more comprehensive document on its work programme and budget for 2004.²⁹ This document was discussed with the Evaluation Committee at its third special session, held on 27 October 2003, and at the informal Executive Board seminar held on 11 November. The Committee provided its broad support to the main thrusts and activities in the evaluation work programme, as well as to the proposed realignment and adjustment in human resources and the budget proposal for 2004. A summary of the Committee's discussions and recommendations is contained in the report of the Evaluation Committee Chairman (document EB 2003/80/R.7), which has been dispatched to Executive Board members. The present document builds on the comments and suggestions made by the Committee on 27 October and by the Board during its informal seminar on 11 November.

105. **Taking stock of 2003.** OE managed to implement its planned work programme for the year despite a number of important additional unforeseen activities it was requested to perform (see paragraph 108). Specifically, OE undertook one corporate-level evaluation (CLE), six country programme evaluations (CPEs), seven thematic evaluations (TEs) and fourteen project evaluations. It also prepared the first Annual Report on the Results and Impact of IFAD Operations (ARRI), apart from formulating the evaluation policy and supervising the independent external evaluation of IFAD (IEE).

106. Before defining its priority areas and objectives, work programme and the human and financial resources requirements for 2004, OE took stock of its work in 2003 and outlined a number of issues that will have to be addressed in the 2004 work programme and budget. Firstly, OE noted the importance of a sound methodology for the quality of its work. In particular, it recognized the need to implement rigorously the methodological framework for project evaluation (MFE) to ensure consistent analysis across all evaluations, which, in turn would facilitate the preparation of the ARRI. Therefore, in 2004 and thenceforth, OE will need to ensure close oversight of MFE implementation and train consultants in its use. Similarly, at the programme level, it is crucial to formulate a coherent methodology for CPEs to be able to better assess the results and impact of IFAD operations in a given country.

107. Secondly, the approval of the evaluation policy has resulted in OE now reporting directly to the Executive Board and has understandably accelerated the increase in the amount of work and time that OE, and in particular its Director, have to devote to evaluation issues related to the Executive Board and the Evaluation Committee, apart from the time devoted to the IEE. The implications of this increased interaction with the Board and Committee on OE's resources has been given consideration in developing the work programme and budget for 2004.

²⁸ The overall decisions of the Executive Board relating to the OE annual work programme and budget are contained in Part Two, Section I, of the IFAD evaluation policy (document EB 2003/78/R.17/Rev.1).

²⁹ The full document (EC 2003/S3/W.P.2) may be accessed on the IFAD website under the section on the Evaluation Committee.

108. Thirdly, as per the recommendation of the Evaluation Committee, OE will rely as little as possible on TAG resources for implementing its future work programme, as access to such resources cannot be taken for granted. Finally, a number of important extraordinary activities – such as the preparation of the evaluation policy and supervision of the IEE – that were not planned for at the beginning of the year resulted in a very heavy OE work programme in 2003. This has been taxing on OE resources. Experience has also shown that there is a limit to the capacity of IFAD and the Board to deal effectively with too many evaluations in a given year. In fact, in the past, the Executive Board and Evaluation Committee have expressed their concern on the size of OE's annual work programmes. Therefore, starting from 2004, OE's objective is to reduce slightly the size of the evaluation work that it will undertake (see paragraphs 112 and 116).

109. **Priorities and objectives for 2004.** In developing its priorities and objectives for next year, OE has paid careful attention to the overall changes in IFAD's operating environment, the Fund's Corporate Priorities and Planning Framework for 2004 and the *Strategic Framework 2002-2006*. The proposed 2004 work programme and budget reflects OE's priorities in terms of independent evaluation activities, but at the same time is aligned with the evaluation-related requirements of IFAD's Sixth Replenishment objectives, actions and outputs³⁰ (see Annex 9). Another important consideration for OE in defining its evaluation programme is the need to ensure that, as far as possible, evaluation activities contribute to the corresponding planning process within IFAD.

110. For 2004, based on the above considerations, OE has identified three main priority areas. These are:

- (i) evaluation work requested by the Executive Board and Evaluation Committee and/or included in the Report of the Consultation on the Sixth Replenishment of IFAD's Resources;
- (ii) conduct of selected corporate-level evaluations, country programme evaluations, thematic evaluations and project evaluations; and
- (iii) further development of the evaluation methodology.

111. The first priority is a reflection of the fact that OE now reports to the Executive Board independently of IFAD management. The new reporting arrangements have important implications for the evaluation programme, as it must comply with the provisions outlined in the evaluation policy and also meet specific requirements of the Executive Board. The second priority reflects OE's core task to assess independently the performance and impact of selected IFAD-supported operations and policies. Finally, the third priority will contribute to enhancing OE's capabilities to assess and measure the impact and effectiveness of IFAD's operations as well as the performance of the various partners engaged in IFAD-supported activities.

112. As mentioned in paragraph 108 and based on the guidance of the Evaluation Committee, in 2004 and future years OE will endeavour to strengthen the quality of its work and devise a work programme of a realistic scope and slightly smaller in size. As a reference, this would on average entail about ten project evaluations and six 'higher-plane' evaluations (e.g. CLEs, CPEs and TEs) undertaken in a given year. In this regard, in 2004 OE will come close but not yet fully achieve this objective.

113. **Priority (i): Evaluation work requested by the Executive Board and Evaluation Committee and/or included in the Report of the Consultation on the Sixth Replenishment of IFAD's Resources.** Under this priority, OE will supervise the IEE on behalf of, and accountable to, IFAD's Executive Board. The IEE will be financed through a one-time, below-the-line cost in the IFAD budget, as approved by the Governing Council in February 2003 and the Executive Board in

³⁰ As reflected in Annex II of the Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006).

September 2003 (Annex 11). The bulk of the work relating to the IEE, including field visits, evaluation analysis, report writing and discussions, will be performed in 2004. OE will continue to prepare progress reports on IEE activities and present them to each Executive Board session in 2004.

114. In 2004, OE will facilitate the process for reviewing the functioning of the Evaluation Committee.³¹ In this regard, at its third special session, which was held on 27 October, the Committee outlined a process for this task that will lead to the preparation of a proposal for Board approval before the end of 2004. In addition, OE will organize three regular sessions of the Evaluation Committee as well as additional special sessions as and when required. Finally, in the first quarter of 2004, OE will organize a field visit of the Committee to Indonesia in connection with the CPE national round-table workshop.

115. The second ARRI will be prepared in 2004 and presented to the Evaluation Committee and Executive Board at their sessions in September 2004. The production of the second ARRI will benefit from the suggestions and guidance provided by the Executive Board and Evaluation Committee members while discussing the first ARRI in September 2003. Finally, OE will implement fully the provisions contained in the IFAD evaluation policy. This will include, inter alia, implementation of the first independent evaluation work programme in 2004 and preparation of OE's work programme and budget for 2005. Furthermore, OE will contribute to and monitor the implementation of a number of IFAD internal implementation and organizational arrangements that are required to ensure smooth implementation of the evaluation policy. These arrangements are expected to be published in a President's Bulletin soon.

116. **Priority (ii): Conduct of selected corporate-level evaluations, country programme evaluations, thematic evaluations and project evaluations.** Under this priority, OE will conduct corporate-level, country programme, thematic and project evaluations. One corporate-level evaluation (CLE) will be undertaken in 2004. Following discussions with – and at the recommendation of – the Evaluation Committee, the subject selected for next year's CLE will be the direct supervision pilot programme. The Committee also recommended that in 2005 OE should undertake a corporate-level evaluation of IFAD's approaches to gender equity and empowerment. Moreover, in 2004 OE will work on 15 project evaluations, 4 CPEs and 4 TEs (see Annex 12 for a more detailed list of evaluation activities in 2004). This represents a slight reduction in the work programme as compared with 2003, which entailed work on 6 CPEs and 7 TEs. However, it should be noted that OE will work on 13 interim project evaluations in 2004 as compared with 11 in 2003. The net effect of this will be a slight decrease in the work programme (see paragraph 108).

117. **Priority (iii): Further development of the evaluation methodology.** OE will apply rigorously the MFE in all project evaluations and, as recommended by the Committee, it will devote resources towards training staff and consultants, as well as sensitize concerned project staff vis-à-vis the MFE. During 2004 OE will implement on a pilot basis the new CPE methodology it developed in 2003, applying it to all CPEs undertaken during the year, taking stock of the initial experiences and adjusting the methodology as required. It will discuss the new methodology for CPEs with the Evaluation Committee to obtain its guidance and comments. Finally, OE will continue its work in the customization³² of the monitoring and evaluation guide, which will be completed by the end of 2004.

118. **Other activities.** As in the past, resources will be devoted to the communication and dissemination of evaluation results. OE will continue to share its evaluation outputs with a broad audience within and outside IFAD, and will revamp the evaluation section of the IFAD website in 2004. It will participate in the electronic deliberations and annual meeting of the United Nations

³¹ At its April 2003 session, the Executive Board decided that the rules of procedure and terms of reference of the Evaluation Committee should be revised in 2004.

³² The objective of customizing the monitoring and evaluation guide is to ensure effective application of the guide in IFAD-supported projects in the different regions. The exercise includes a number of activities such as training of project staff and other partners, preparation of an inventory of human resources and institutions specialized in monitoring and evaluation that can directly lend support to the projects, translation of the guide into different languages, and so on.

Evaluation Group, and keep abreast of the latest developments and progress in evaluation methodologies and experiences of development organizations. It will also make efforts to gain access to the Evaluation Cooperation Group of the multilateral development banks.

119. **Human resource requirements.** To implement successfully its 2004 work programme, OE will have to realign its existing staff resources (see Annex 9 for the 2004 OE staff levels) to meet the requirements of the new evaluation policy and that of the changing nature of its work programme (see paragraphs 104-106). This includes: (a) devoting more staff resources³³ to overseeing implementation of the MFE, introduction of the new CPE methodology and preparation of the ARRI; (b) allocating a significant amount of time of an existing professional position³² to activities related to the work of the Evaluation Committee and the Executive Board; and (c) creating the required space in the OE Director's time for more frequent and intensive interactions with the Evaluation Committee and the Executive Board to meet the requirements of the independent evaluation function of IFAD. The Evaluation Committee expressed its concurrence with the proposed staff realignment, which will be performed without any increase in the total number of staff at OE. However, for this realignment to be put effectively into place, a number of measures need to be introduced.

120. One of the provisions of the new evaluation policy concerns the need to ensure that "OE is staffed by ... sufficiently senior evaluators".³⁴ For this purpose, it has been decided in consultation with IFAD's Office of Human Resources that, in principle, the minimum grade to be offered to evaluation officers will be fixed at P-3, while the maximum grade that they can reach in their career with OE will be at P-5, a grade that corresponds to the position of Senior Evaluator.³⁵ In 2004, OE will undertake, together with the Office of Human Resources, a job evaluation to confirm these grades. As with the rest of IFAD, the grade for new recruitments will be fixed in consultation with Office of Human Resources when the respective vacancy announcement is prepared.

121. Following the job evaluation and grade verification exercises conducted by the Office of Human Resources, the position of the only senior evaluation officer currently available in OE would be upgraded to the level of Deputy Director to reflect the considerable changes that have already occurred in the job description of the concerned staff³⁶ and bring OE in line with the evaluation units of other international financial institutions and the United Nations Development Programme (UNDP). The above-mentioned changes were caused by evaluation's shifting priorities that have imposed additional demand on the OE Director's time (see paragraph 107). This upgrading is subject to the issuance of the President's Bulletin referred to in paragraph 115.³⁷

122. **Proposed budget.** Based on the rationale contained in the OE work programme and budget document for 2004, as mentioned in paragraph 104 the Evaluation Committee provided its support for the budget level proposed by OE for next year. However, it noted that, in the future, OE's overall annual administrative budget may fluctuate from year to year in order to effectively meet the evolving requirements of its evaluation work programme. Additional (or fewer) resources may be required in a given year as compared with the previous year to respond adequately to the provisions laid out in the evaluation policy.

123. The 2004 work programme outlined in the preceding paragraphs is designed to be executed within a budget envelope of USD 4 242 000 (see Annex 10). This includes the following two sub-categories: (a) evaluation work; and (b) staff costs.

³³ The concerned staff members are already currently devoting a good part of their time to these activities.

³⁴ See IFAD evaluation policy, paragraph 61.

³⁵ Currently, OE has only one senior evaluator, as compared with four in the past.

³⁶ The incumbent will continue, inter alia, to: (a) provide substantial support to the Director in formulating OE's annual work programme and budget and assigning evaluation tasks within OE; (b) manage the evaluation of strategic corporate-level policies and programmes; (c) lead the process of introducing and monitoring rigorous methodological frameworks for evaluations; (d) lead the production process of the ARRI; and (e) manage OE in the absence of the Director, and upon his request.

³⁷ The proposed President's Bulletin states, inter alia, that the Director of OE will propose the minimum and maximum grades of OE staff for approval by the Executive Board, after due analysis, and in consultation with the Office of Human Resources.

124. As anticipated during the September 2003 sessions of the Executive Board and Evaluation Committee, and illustrated in Annex 10, there will be an increase in the 2004 OE budget. This increase is due to the cumulative effect of factors that are mostly beyond OE's control, such as: (i) similar to the situation of IFAD's administrative budget and as calculated by the Office of the Controller (FC), the OE budget must be restated to reflect the devaluation of the United States dollar against the euro in 2003, leading to an increase equivalent to USD 338 000; and (ii) similar to the situation of IFAD's administrative budget and as calculated by FC, an adjustment of +1.7% (corresponding to USD 68 000) must be applied to reflect a projected annual inflation rate of +2% and some reductions in staff entitlements, due to the appointment of OE staff at a lower than maximum grade in the past. Therefore, the 2004 budget takes into account the restatement required to reflect the depreciation of the dollar against the euro and inflation.

125. In the evaluation work sub-section, the following additional costs will be absorbed within the nominal increase described above, thanks to the slight reduction in the number of CPEs and TEs that OE will undertake in 2004:

- conduct of an increased number of interim evaluations;
- internalization into OE's administrative budget of the TAG resources used in the past for in-country workshops, as recommended by the Evaluation Committee at its Thirty-Fourth Session;
- estimated travel costs for the Evaluation Committee's participation in the Indonesia CPE workshop;
- the first ARRI³⁸ was produced partly through supplementary funds made available by Switzerland. The ARRI, which is a core product, will be produced by OE on an annual basis in the future. In this regard, OE has earmarked in its 2004 administrative budget (under budget sub-item *Corporate-Level Evaluations and Other Activities*) an allocation corresponding to the estimated cost of the production of the first ARRI.

126. In the 2004 budget, OE has included a contingency allocation that would serve to meet the unforeseen expenditures that the division may have to incur during the year. The need to include a contingency is dictated by the fact that OE's budget is now separate from the budget of IFAD. Consequently, OE will not be able to request additional resources during the year from IFAD's administrative budget to meet unforeseen costs that might arise. Moreover, 2004 will be the first year that the evaluation policy is fully implemented and some of the implications of operating under the new policy will be known once the activities are actually implemented. It is therefore difficult, at this stage, for OE to estimate with precision all costs associated with implementing its work programme and managing its human resources that would normally have been covered by the IFAD administrative budget. Therefore, as suggested by IFAD's Office of the Controller, a contingency amounting to 5% of the rest of the budget has been included in the 2004 proposal. This will be used, for example, to meet unforeseen costs related to changes in staff entitlements or salary increases dictated by the United Nations Common System and the work of the Evaluation Committee. The Director of OE will report separately to the Executive Board on the utilization of the contingency amount, providing a summary of activities financed.

127. Annex 10 provides a summary of the budget for 2004 and a comparison with 2003. Furthermore, as per the suggestion of the Evaluation Committee, Annex 10 also gives an indication of the total amount of TAG resources mobilized by OE in 2003; Annex 11 gives the overall IEE budget, which is administered by OE. Finally, to summarize, in 2004 the OE budget will remain overall within the 2003 level, with the exception of a contingency that is reserved for unforeseen costs in some cost categories.

³⁸ This was presented to the Evaluation Committee and Executive Board in September 2003.

IV. RECOMMENDATIONS

128. In accordance with Article 6, Section 10, of the Agreement Establishing IFAD and Regulation VI of the Financial Regulations of IFAD, it is recommended that:

- (a) in accordance with the above, the Executive Board approve the programme of work for 2004 at a level of SDR 323 million (USD 462.5 million), comprising a lending programme of SDR 290.8 million (USD 416.3 million) and a gross TAG programme of SDR 32.3 million (USD 46.2 million) made up of a net grant programme of SDR 22.7 million (USD 32.5 million) and an amount of USD 13.7 million equivalent transferred to the PDFF. The 2004 programme of work represents a 3% increase over the 2003 programme of work (excluding the PDFF). It is proposed that this programme of work level be approved only for planning purposes and that it be adjusted during 2004 in accordance with the level of resources available;
- (b) the Executive Board approve the total PDFF in the amount of USD 29.7 million for 2004 (inclusive of projected field-presence costs);
- (c) the Executive Board authorize the President to submit to the Twenty-Seventh Session of the Governing Council the administrative budget for 2004 in the amount of USD 51.4 million, inclusive of USD 4.7 million to cover one-time costs and also USD 4.2 million under Section III for the independent Office of Evaluation;
- (d) the Executive Board authorize the President to submit to the Twenty-Seventh Session of the Governing Council an amendment to Regulation VI, paragraph 2, of the Financial Regulations of IFAD, with retroactive application to the 2003 budget, so as to authorize the carry-over policy of 3%; and
- (e) the programme of work and administrative budget for 2004 will be implemented, monitored and reported with both the activity-based budgeting and the traditional expenditure category presentation.

IFAD'S ACTIVITY TREE

Level 1 Allocation	Level 2 Allocation	Level 3 Commitment and reporting
IP1 Manage loan and grant-funded country programmes for results	Design Loan Programmes	Inception Formulation Appraisal Loan Negotiation Start-up Support
	Environmental Assessment Implementation Support Loan Programmes	Implementation follow-up and support (non-Direct Sup Loans) Iterative Formulation of ongoing FLM Projects Mid-term Review Portfolio Review Supervision and Administration of Loans (CIs) IFAD Direct Supervision Project Completion Report
IP2 Manage grant-funded research and capacity-building programmes for results	Design Grant Programmes	Develop of Research Grant Develop of Training Grant Develop Programme Grant Develop NGO/ECP Grant Develop BSF JP Grant
	Implementation Support Grant Programmes	Implementation follow-up and support Research Grant Implementation follow-up and support Training Grant Implementation follow-up and support Programme Grant Implementation follow-up and support NGO/ECP Implementation follow-up and support BSF JP Grant Supervision and Administration of Grants (CIs)
IP3 Promote inclusive and enabling poverty reduction policies at the local, national, regional and global levels	Policy and Strategy Development	IFAD Strategy Development Regional Strategy Development Country Strategy Development (COSOP) Develop IFAD Policies and Strategies for Poverty Reduction Develop Guidance Notes for Project Cycle
	Advocacy and Dissemination	PRSP UNDAF SWAPS Monitoring of Project Cycle Guidance Notes Policy Outreach Initiatives Field Presence
IP4 Manage knowledge relevant for effective rural poverty reduction	Evaluation	Corporate-level Evaluation Country Programme Evaluation Interim-Evaluation Project Evaluation Thematic Evaluation
	Internalise Knowledge	Core Learning Partnerships Thematic Groups Technical Advisory Notes Exposure Field Visit Capture External Knowledge Library Services
	Disseminate Knowledge	Archives Maintenance Develop & Maintain Information Databases Publications Audio/Visual Features Web-based Features Exhibitions Public Lecture
	Manage Internal and External Communication and Information	Conduct strategic communication planning Developing a communications culture, identifying communications Training needs and providing communications training Establishing communication policies, procedure and standards Evaluating communication programmes, projects and services Managing and providing communication services including editorial design, production and distribution

ANNEX 1

IP5	Mobilize and manage financial resources for rural poverty reduction programmes	<ul style="list-style-type: none"> Resource Management Financial Resource Management Financial Management 	<ul style="list-style-type: none"> Strategy development for mobilization of regular resources Strategy development for mobilization of supplementary funds Mobilization of Regular Resources Mobilization of Supplementary Funds Contributions management Management of Supplementary Funds Implementation of HIPC DI Develop Financial Policies Budget Preparation and Execution Asset and Liability Management External Audit Financial Analysis & Reporting Processing Payments Support to Divisions on Financial Management issues Ensure Compliance with IFAD Financial regulations
IP6	Build strategic partnerships with other actors in rural poverty reduction (international financial institutions, United Nations agencies, bilateral agencies, research organizations and civil society organizations)	<ul style="list-style-type: none"> Build Strategic Partnership with NGOs Build Strategic Partnership with Private Sector Build Strategic Partnership with IFIs Build Strategic Partnership with UN Agencies Build Strategic Partnership with Bilateral Agencies 	<ul style="list-style-type: none"> Develop Partnership Proposals Mobilize Coordinated Action for Rural Poverty Reduction Develop Partnership Proposals Mobilize Coordinated Action for Rural Poverty Reduction Develop Partnership Proposals Mobilize Coordinated Action for Rural Poverty Reduction Develop Partnership Proposals Mobilize Coordinated Action for Rural Poverty Reduction Develop Partnership Proposals Mobilize Coordinated Action for Rural Poverty Reduction
IP7	Develop innovative approaches to rural poverty reduction	<ul style="list-style-type: none"> Develop Strategy for Innovative Programmes Develop Proposals for Innovative Programmes Implement Innovative Programmes Evaluate and Mainstream innovative Programmes 	
IP8	Manage institutional governance and IFAD's working environment for enhanced effectiveness	<ul style="list-style-type: none"> Organizational Strategy and Management External Evaluation of IFAD Governing Body Relations Manage IFAD's Work Environment HR Management IT Management Legal and Internal Audit Services 	<ul style="list-style-type: none"> Audit Committee Executive Board Meeting Evaluation Committee GC Meeting Other Meetings Develop Administrative Policies Facility Maintenance Premises Overhead Security Procurement of equipment & supplies Business Continuity Plan Develop HR Policies Recruitment & Selection Job Design & Evaluation HR Planning Performance Management Growth & Development Legal Issues/Arbitration Payoffs Develop IT Projects Maintain IT Infrastructure Maintain corporate Applications Help Desk and end user support Web Site Maintenance Legal Assistance on Cooperating Institution Relations Legal Assistance on Investment Legal Assistance on Procurement Corporate Legal Services Legal Assistance on IFAD Premises Contracts Legal Assistance on Privileges and Immunities Audits Investigations

CONTEXT OF IFAD'S POVERTY REDUCTION EFFORTS

1. Rural poverty and food security remain a global concern. Millions of people worldwide, of whom about 40 million live in Africa, are at risk of starvation. This situation derives not only from climatic conditions and natural disasters but also from structural causes, such as chronic poverty, the lack of an enabling environment and appropriate support for agriculture, HIV/AIDS prevalence, an increasing number of conflicts, poor governance and, not least, economic management and trade-related issues. These factors are likely to cause recurrent food crises and increase long-term household food insecurity, particularly in Africa.

2. While several countries in eastern and southern Asia have notably improved economic growth levels and are making substantial progress towards the Millennium Development Goals (MDGs), the outlook for the rural poor in many other developing countries remains grim. Global economic growth is an insufficiently reliable means for reducing world poverty, and future prospects are overcast by interconnected risks related to security and conflicts, HIV/AIDS and depressed prices for commodities produced by developing countries. The situation is especially dramatic in sub-Saharan Africa where grossly inadequate levels of growth seriously compromise the region's chances to achieve the MDGs. Central Asia, Latin America and the Caribbean, the Near East and northern Africa also critically depend on sustained projected growth levels to secure their MDG targets. Growth alone, however, will not guarantee that the MDGs will be achieved: growth needs to be accompanied by institutional transformation and especially policy changes that ensure that the poor take part in such growth. Although enormous challenges remain, recent significant developments in the policy change agenda at the global, national and local levels will positively affect the external context in which IFAD will operate in 2004.

3. The 2002 Monterrey Consensus formally reiterated the need for a reversal in the decline of official development assistance (ODA) to support MDG-related development and poverty reduction in synergy with debt relief and foreign direct investment, against a backdrop of conducive trade policies (at the global, regional, national and local levels) and enabling domestic policies that will harness domestic resources for poverty reduction. This message was reinforced at the 30 October 2003 High-Level Dialogue on Financing for Development. As a result, ODA commitments are expected to increase to USD 68 billion (in real terms) by 2006. According to data released earlier this year by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), official development assistance to developing countries from members of the DAC increased by 4.9% in real terms in 2002. Total ODA amounted to USD 57 billion (up from USD 52 billion in 2001), equivalent to 0.23% of gross national income, up from 0.22% in each of the last three years. Twelve of the 22 DAC countries achieved increases in ODA in 2002, with the largest gains coming from: (i) the United States (USD 1.5 billion); (ii) France (USD 1 billion), in line with that country's commitment to raise ODA levels to 0.5% of gross national income (GNI) by 2007 and 0.7% of GNI by 2012; and (iii) Italy (USD 0.7 billion), or 31.5% in real terms, reflecting contributions towards the Heavily Indebted Poor Countries Initiative, as well as contributions to the European Commission and Global Funds. Some of the smaller countries are the largest contributors to ODA, in comparison with their gross national income. The non-G7 countries had average ODA levels equal to 0.46% of GNI, while G7 countries' ODA levels averaged only 0.19% of GNI. Denmark, Luxembourg, The Netherlands, Norway and Sweden were the only DAC countries to achieve ODA levels above the United Nations target of 0.7% of GNI. Three other countries (Belgium, France and Ireland) have set a firm date to reach the 0.7% target. The OECD estimates that if all DAC countries were to meet their targets for increases in aid, then ODA levels would rise by 31%, and the ODA/GNI ratio would increase to 0.26%, by 2006. This level would remain well below the United Nations target, as well as below the ratio of 0.33% consistently achieved until 1992. However, this target would represent a substantial rise in ODA from current levels, and some countries have made

commitments for future increases in ODA beyond 2006. This constitutes a conducive resource environment for leveraging IFAD's efforts in poverty reduction.

4. The challenge remains, however, to channel such additional aggregate resources towards rural and agricultural development, disproportionately affected by the decline in ODA even though 75% of the world's poorest people live in rural areas and the rural sphere supports large portions of developing country growth, gross national income, employment and exports. The Group of Eight (G-8) countries and Nordic countries, among others, have recently issued policy documents in support of rural and agricultural development as an integral and central part of a comprehensive poverty reduction strategy; and some countries, such as Canada, have significantly increased their resource allocations to this sector. The G-8 Summit held in Evian, France, in June 2003 highlighted the issue of long-term food security and the need for famine prevention in Africa. The G-8 undertook to work towards reversing the decline of ODA to agriculture and increasing trade opportunities for developing countries as a means to tackle the structural causes of poverty. It also recorded its readiness to support efforts by developing-country governments to pursue these aims through, inter alia, support of sound agricultural policies at the national and regional levels, development of farmers' organizations, productive investments in agricultural infrastructure and inputs, promotion of food crops and of the competitiveness of export crops, improved scientific resources and the adaptation of new and improved agricultural technologies. The High-Level Segment of the United Nations Economic and Social Council (ECOSOC) session held in June 2003 – entitled "Promoting an integrated approach to rural development in developing countries for poverty eradication and sustainable development" – put rural poverty reduction high on the development agenda. As these policy statements and collective commitments translate into individual donor responses with effective support for rural poverty-focused country-owned strategies (such as poverty-reduction strategy papers [PRSPs] or sector-wide approaches [SWAPs]), IFAD will find significant partnership opportunities for rural poverty reduction in a country-specific programmatic context.

5. The year 2004 will be critical for the Debt Initiative for Heavily Indebted Poor Countries (HIPC). Countries not yet benefiting from the initiative will need to make efforts to become eligible for debt relief before year-end, at which point the 'sunset clause' takes effect. Many approved country cases will reach their completion points in 2004. As a result of debt relief, significant levels of fiscal resources will become available for poverty-reducing expenditures in the framework of country-owned poverty-reduction strategies, and it is expected that integrated public-expenditure tracking systems will be put in place to monitor the allocation and quality of such expenditures. A key premise of the HIPC Initiative – that debt relief should be additional to other forms of external financing assistance – appears to be borne out by the facts. For the 27 decision point countries, both gross and net flows increased during 1997-2002. On a gross basis, official flows increased from about USD 8 billion in 1997 to almost USD 12 billion in 2002, with half of the increase due to HIPC relief. Net resource flows also increased substantially once the enhanced HIPC Initiative got under way. It should be noted, however, that official external financing flows to the 27 decision point countries declined substantially in the mid-1990s (as they did to other low-income countries). The recent increase in these flows restores external financing to the levels of the early 1990s. The overall increase in resource flows also masks differences across countries and the important role that programme and policy performance may have played in attracting official resources. Average external financing flows in 2000-02 increased for most of the 27 decision point countries relative to average levels in 1997-99, but this was not the case in eight HIPCs. Five of these countries (Guinea-Bissau, Malawi, Nicaragua, Sao Tome and Principe, and Senegal) went through protracted interruptions in their PRGF-supported programs, which dampened aid inflows. Two other countries (Mali and Mauritania) experienced delays in grant or loan disbursements. Rwanda benefited from very high inflows during the late 1990s, though these ebbed somewhat in the following years. Indeed, beyond debt relief, the donor community clearly needs to support HIPCs in maintaining long-term debt sustainability through appropriately designed poverty-reduction programmes funded with additional highly concessional loans and/or grant resources, without compromising performance-based criteria

for such additional resource allocations. This will open up opportunities for IFAD to enter into country-led partnerships.

6. The countries that have yet to join the initiative are mostly in conflict or post-conflict situations and/or have significant levels of arrears to international financial institutions. A meeting of multilateral development banks (MDBs) hosted by IFAD in February 2003 has led to the development of a joint MDB process for dealing with such country cases. In addition, following up on its 1998 post-conflict policy framework paper, IFAD has recently developed a post-conflict poverty-reduction strategy framework and is in the process of mobilizing resources to fund it. This will create opportunities for IFAD, in partnership with other donors that have similar policies and strategies in place, to help some of the poorest countries in the world (not only HIPCs) resume a path of peace, local empowerment, poverty reduction and growth.

7. Remittances, currently about USD 100 billion per annum, are emerging as a major source of finance for developing-country households. In 2003 IFAD assessed the potential and enabling conditions for mobilizing a larger amount of such remittances for productive investment and rural poverty-reduction purposes, especially in the context of IFAD-supported country programmes in Latin America and the Caribbean (but also in Asia, the Pacific and Africa). IFAD has many potential partners in this new avenue for rural development, not least in the private and cooperative sector.

8. A level playing field for trade, especially in agriculture, is crucial for growth, poverty reduction and rural empowerment in developing countries. It was a cause of concern that members of the World Trade Organization (WTO) failed to meet the March 2003 deadline for agreeing on modalities for reductions in support and protection in agriculture, which are vital for the world's poorest, especially farmers. The progress made in the spring of 2003 mitigated the fears that this missed deadline would have definitely compromised the momentum required to secure the success of the September WTO Ministerial Conference in Cancun, Mexico. The Evian Statement on Cooperative G-8 Action on Trade provided a promising outlook for the end of 2004; and this outlook included the recognition that preference programmes for poor countries have an important transitional role. Announcements concerning a review of the European Union's Common Agricultural Policy also constituted a source of hope for seriously addressing subsidy-caused trade distortions. The recent failure of the trade negotiations at Cancun has reignited concern about longer-term constraints to access to developed country markets for developing countries, and the likely proliferation of bilateral agreements that may further distort trade opportunities. With better trade prospects for developing country agriculture, investments in rural economic enterprises gain profitability and contribute to poverty-reducing growth. It is hoped that trade talks will effectively resume in the next year or so.

9. The New Partnership for Africa's Development (NEPAD) initiative and further support in the recent Tokyo International Conference on African Development represent significant partnership opportunities for IFAD in Africa.

10. The creation of a global fund to tackle HIV/AIDS, malaria and tuberculosis, in addition to trust funds to fight illiteracy and polio, among others, also presents the Fund with partnership opportunities (beyond the crucial Belgian Survival Fund Joint Programme) in critical areas of rural poverty related to the MDGs worldwide and especially in Africa.

IFAD'S COUNTRY PROGRAMMES BY REGIONAL DIVISION

Western and Central Africa

1. The programme of work for 2004 of the Western and Central Africa Division responds to the medium-term strategy of IFAD in the region. The strategic objectives are to: strengthen the capacity of the rural poor and their organizations; sharpen the pro-poor focus of rural development policies and institutions; raise agricultural and natural resource productivity; improve access to technology; increase rural incomes through better access to financial capital and markets; and reduce vulnerability to major threats to rural livelihoods.

2. *Lending and grants programme.* The 2004 lending level is projected for six projects. Four other projects are included as reserves. The programme reflects the Strategic Framework priorities. All projects will place a strong emphasis on grass-roots institutional capacity-building. The projects for Burkina Faso, The Gambia and Mali will focus on improved natural resource management. In addition, agricultural productivity issues will be addressed through continued emphasis on proactive development and follow-up of agricultural research TAGs. Projects in Benin and The Gambia will focus on employment generation and boosting incomes in line with the strategic objective of increasing rural incomes. Finally, projects in The Congo and the Democratic Republic of the Congo will address post-conflict reconstruction aspects to reduce vulnerability to major threats to rural livelihoods. Numerous cofinancing activities exist and will be developed in the course of the design of projects for submission to the Executive Board in 2004.

3. *Managing the portfolio of ongoing projects.* The overall thrust of the 2004 programme will be to maintain a strong emphasis on enhancing impact through improved project implementation performance. A TAG will be developed to strengthen management capacity in IFAD projects. The division will continue a practice initiated in 2002 of ensuring that country portfolio managers participate in at least half the supervision missions, particularly when the annual work programmes and budgets are developed, ensuring that IFAD is present when the most important implementation decisions are being made. Regarding improved impact assessment in ongoing projects and programmes, two activities initiated in 2002 – nutrition monitoring and the development of institutional assessment tools – will be scaled up to several more projects, and methods and results will be disseminated through FIDAFRIQUE, the Internet-based network of IFAD projects in western and central Africa. A regional TAG for strengthening monitoring and evaluation support to ongoing projects will be developed and another TAG will be implemented to support a knowledge management system on community development approaches.

4. *Policy dialogue.* Conducted in partnership with government, civil society and like-minded donors, policy dialogue will involve the development of appropriate legal and regulatory frameworks for microfinance in Benin and Cameroon, concrete measures to increase the pro-poor nature of decentralization in Ghana, Guinea and Senegal, and appropriate institutional frameworks for more effective delivery of rural services in Cameroon and Nigeria. Support to the West Africa regional network of producers' groups will serve to strengthen the policy advocacy capacity of this important stakeholder group. The Regional Hub will also be an important means to facilitate policy analysis and dialogue. The division will actively support implementation of at least four PRSPs, together with the establishment of a regional network for sharing PRSP experience in the rural sector. Jointly with the Eastern and Southern Africa, and the Near East and North Africa Divisions, collaboration with the NEPAD secretariat will be deepened through the provision of technical assistance for the implementation of the NEPAD action plan, and by increasing the participation of farmer organizations and civil society in the NEPAD process. FIDAFRIQUE will continue to be an important means for networking between regional project staff and other regional stakeholders in 2004. Major focuses of IFAD-initiated agricultural research TAGs in western and central Africa will include:

strengthening links with loan projects, further boosting socio-economic capabilities and promoting exchanges among grant-financed operations on best practices.

Eastern and Southern Africa

5. The Eastern and Southern Africa Division's strategic goal is to contribute substantially to the empowerment of rural poor people in the region in order to establish a basis for sustainable improvement in income and food security against a backdrop of rapid and deep political and economic changes in African rural society. Attaining this high-level goal involves two sub-objectives: (i) increasing the assets (skills, knowledge, organization, material resources and services) at the disposal of the poor, individually and collectively; and (ii) creating a supportive public policy and institutional framework with regard to the issues involved in the strategically vital areas of access by the rural poor to rural finance, markets, land and water, and technology.

6. *Lending and grants programme.* The priority for the division in 2004 is to increase IFAD's impact on rural poverty. IFAD's major instrument in the region is its lending programme (as a multi-functional device). The division is planning to submit five projects to the Executive Board in 2004. Projects in Ethiopia and Uganda will focus on access to markets. In the United Republic of Tanzania, the emphasis will be on access to technology; in Zambia it will be on access to finance. The project in Burundi will concentrate on post-conflict social and economic reconstruction. Cofinancing opportunities will be identified in the project preparation process within emerging forms of donor collaboration for development assistance, conventional cofinancing and, in the cases of the projects in the United Republic of Tanzania and in Uganda, within a sector programming framework. The development and expansion of the pipeline will involve a process of strategic 'deepening' rather than diversification. The TAG programme provides resources for, among others, the promotion of women's access rights to land in Kenya; HIV/AIDS rural information systems in Burundi and Rwanda; organization of a farmers' forum in the United Republic of Tanzania; and, at the regional level, support to market linkage initiatives and a regional facility for operational and policy support to rural finance programmes.

7. *Managing the portfolio of ongoing projects.* The division will further strengthen the institutional and policy development dimensions of new programmes (e.g. investment in local capacity and systems of representation). It also intends to increase IFAD's field presence to better respond to and shape emerging local views on the need for and direction of change. Programme management capacity is key to implementing more successful and sustainable projects: raising the management capacity of programme-related staff (in generic and subsector-specific areas) and facilitating the exchange of experience among programmes and associated stakeholders are priorities for the division in 2004. The division will also develop national and regional capacities to complement IFAD's and its cooperating institutions' activities in programme implementation support in key strategic areas (e.g. rural finance and market linkages); and improve the national-level (and IFAD) learning process through more systematic impact monitoring and analysis.

8. *Policy dialogue.* In 2004, the division plans to strengthen smallholder capacity to engage in policy dialogue on the basis of organization and training. Direct participation of IFAD staff and IFAD field collaborators in national policy and programme development and coordination mechanisms will be enhanced, and programme development will take place within sector-wide programming frameworks where these exist. In addition, the division will increase dissemination of lessons learned to key national and international stakeholders and develop IFAD's own strategy in the region to take account of experiences and shifts in the national, regional and international environments. Support will be made available to regional initiatives (e.g. NEPAD) to provide the opportunity for leverage to improve treatment of smallholder-related issues.

Asia and the Pacific

9. The Asia and the Pacific Division will focus on impact and policy dialogue through increased efforts for implementation support and updating country strategies. The activities in 2004 are based on the regional strategy as follows: (a) empowering women by improving their access to resources and their participation in community management affairs; (b) increasing agricultural productivity in marginal areas, primarily through sustainable agricultural technologies; (c) empowering ethnic minorities and indigenous peoples; and (d) expanding the capabilities of the poor and vulnerable through greater access to self-help, local-level savings mobilization, combined with microfinancial services in a rural finance framework, new skills, technologies and markets.

10. *Lending and grants programme.* The division plans to submit six new investment projects to the Executive Board in 2004 (China, Indonesia, Laos, Nepal, Sri Lanka and Viet Nam). Two projects will also be prepared as part of a contingency plan. All 2004 activities will address one or more of IFAD's strategic objectives, and all projects will strengthen organizations of the rural poor and address the requirements of the IFAD gender action plan. A subregional grant of USD 3.5 million (over a three-year period) has been proposed for the Pacific islands. Cofinancing of USD 1 million has also been secured for a pilot initiative in Viet Nam to establish a development model for the rural areas of the central highlands. Following the recent agricultural research strategy for the region, the TAG programme will seek to maximize the impact of research activities addressing poverty in Asia by focusing on regional thematic and agro-ecosystem priorities. Emphasis will also be placed on cultivating linkages between the grant and loan programmes to increase impact.

11. *Managing the portfolio of ongoing projects.* The division is planning to improve the quality of country portfolios by sharpening the focus on policy issues and impact achievement as a basis for strengthening IFAD's catalytic role. This will be achieved through country portfolio reviews and thematic evaluations as a basis for COSOP development and strengthened project and programme design. It will require reinforcing field capacity through local resource persons and institutions. To promote results-based management, the division will also continue to give priority to improving project management and monitoring capacities by introducing participatory impact monitoring methods. Monitoring and evaluation guidelines will be customized and implemented in at least four countries in the region in 2004. Increased gender mainstreaming in project design and implementation and the enhanced participation and representation of women will also be a priority for the division in 2004.

12. *Policy dialogue.* The division will continue to play a catalytic role by focusing on less favoured and marginal areas. As activities must address asset, institutional and policy obstacles for sustained poverty reduction, the division will continue to forge effective links and partnerships at the policy level to achieve the greatest impact from its loan and grant projects. It will therefore continue to improve policy dialogue with governments and other stakeholders in promoting pro-poor policies and scaling up successful initiatives. The division will also seek to strengthen capacities of rural poor organizations to enable them to benefit from project interventions. The sharing of knowledge and experiences among various stakeholders will be promoted through Electronic Networking for Rural Asia/Pacific Projects, a subregional portfolio review workshop, improved in-house collaboration and teamwork, and thematic studies. This includes the establishment of a regional communication action plan for sharing knowledge and lessons learned among different stakeholders.

Latin America and the Caribbean

13. The activities of the Latin America and the Caribbean Division for 2004 will follow IFAD's primary aims in the region: empowering rural poor people and significantly reducing rural poverty. To achieve these aims, IFAD intends to act: directly, through the impact of the projects and programmes it supports in specific areas of recipient countries; and indirectly, through the influence of its activities

on government policies. IFAD's strategy includes the following elements: (i) enhancing impact assessment and implementation support; (ii) assisting the rural poor in taking advantage of new market opportunities; (iii) furthering knowledge management; (iv) promoting partnerships with other institutions working with similar aims; and (v) improving policy dialogue. Particular attention will be given to working with indigenous populations.

14. *Lending and grants programme.* The division will present four projects to the Executive Board in 2004. The lending programme will concentrate on Argentina, Brazil, Colombia, Dominican Republic and Ecuador, with high priority assigned to: rural poverty reduction; Ecuador, with a large number of indigenous populations; and Colombia, with severe conflict situations. The project in Ecuador will be developed as a reserve project. TAGs play a critical role in IFAD's strategy in Latin America and the Caribbean by supporting projects, promoting synergies and facilitating links with civil society. The three proposed TAGs for 2004 are directly related to the Strategic Framework. The TAG for the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty-Alleviation Projects in Latin America and the Caribbean (Phase III) will give priority to innovative and cost-effective ways of measuring impact. The TAG for the Regional Unit for Technical Assistance (Phase VI) will focus on strengthening cooperation between donors and local institutions working in Central America. The TAG devoted to remittances seeks to enhance their impact on poverty-reduction strategies.

15. *Managing the portfolio of ongoing projects.* The division is planning to increase impact through better project implementation, the provision of training and support services to projects, innovation, knowledge management, policy dialogue and partnership-building at the regional level. This requires greater attention to creating a more efficient process for developing in-country policies, which in turn implies greater emphasis on partnerships, networking and advocacy. Promoting the catalytic effect of IFAD's interventions is also envisaged. This can be achieved through the acknowledgement of the changes and new obstacles faced by rural households and a focus on ways to overcome their poverty, such as market access, remittances, conflict resolution and pro-poor institutional development. The development of new instruments for tackling poverty reduction more effectively and the promotion of sustainable natural resource management are two further priority areas for 2004. Greater impact also implies: (i) placing more emphasis on the preparation, follow-up and impact assessment of lending and non-lending activities; (ii) mobilizing resources for innovative poverty-reduction initiatives; (iii) increasing inter- and intraregional interactions for the development of new poverty-reduction instruments; and (iv) putting in place some form of field presence at the regional and subregional levels.

16. *Policy dialogue.* To achieve its objectives, IFAD needs to improve substantially its ability to work with others at the national and regional levels, particularly in the policy field. Therefore, the promotion of networks and partnerships will constitute a guiding principle for the division's interventions in 2004. In addition, the following measures will be necessary to help implement this strategy: (i) better communication and dissemination of information on IFAD activities to enhance partnerships with governments, civil society and other international organizations; increase attention to rural poverty issues and improve the Fund's visibility; (ii) strengthening of staff capacity to carry out proposed activities and reinforcement of existing working alliances, such as the Inter-Agency Working Group on Rural Development¹ and the Regional Network in Rural Finance; (iii) preparation of technical studies, to be determined by the division, in the strategic areas of knowledge management and pro-poor policies, in order to define future instruments and activities more clearly. Possible themes are decentralization of public-sector organizations; rural financial services, including

¹ Besides IFAD, the members of the Inter-Agency Working Group on Rural Development are the Economic Commission for Latin America and the Caribbean (ECLAC), the Food and Agriculture Organization of the United Nations (FAO), the German Agency for Technical Cooperation (GTZ), the Inter-American Development Bank (IDB), the Inter-American Institute for Cooperation on Agriculture (IICA), the United States Agency for International Development (USAID) and the World Bank.

remittances; market access; and indigenous peoples; (iv) strengthening of staff capacity for policy analysis and dialogue to be focused on strategic areas; and (v) greater emphasis on the analysis of and support to poverty-reduction strategies in the region.

Near East and North Africa

17. In line with IFAD's strategic objectives and regional strategies for the Near East and North Africa (NENA) and Central and Eastern Europe and the Newly Independent States (CEN) subregions, the division's 2004 loan portfolio focuses on institutional capacity-building and empowerment of the rural poor, improving equitable access to natural resources (especially water and rangelands) and technology, diversifying the income sources of the poor and increasing their access to markets and rural infrastructure.

18. *Lending and grants programme.* Four projects will be processed in 2004 (for Algeria, Azerbaijan, The Sudan and Yemen). The new projects in Algeria, The Sudan and Yemen focus on improving access to productive natural resources and technology. The project in Algeria will contribute to better watershed management and access to irrigation water; the project in Yemen will focus on natural resources management (mainly rangelands) and rural infrastructure; while the project in The Sudan will emphasize improved livestock and rangelands management. The project in Azerbaijan will revitalize the agricultural sector through the improvement of irrigation, access to technologies and the promotion of market linkages. The division is considering designing a post-conflict rural poverty-reduction programme in Iraq (to be cofinanced on a grant basis with other donors), depending on how the situation evolves. The three regional TAGs proposed for 2004 – to the Arab Centre for the Studies of Arid Zones and Dry Lands (ACSAD) for sustainable use of underground water resources in oasis agriculture in NENA, to the International Center for Biosaline Agriculture for the development of sustainable forage production systems, and to the International Food Policy Research Institute for policies on water scarcity – are also directly related to the Strategic Framework, especially in their emphasis on strengthening the capacities of the rural poor and improving their access to assets and technology and to the formulation of appropriate policies. These TAGs will make it possible for the division to address the complex issues of water scarcity and water use in NENA.

19. Furthermore, a pipeline of three projects scheduled for presentation to the Executive Board in April and September 2005 (Armenia, Jordan and Tunisia) will be processed in 2004. However, subject to availability of funds, one of these projects may be presented as a reserve project at the December 2004 Executive Board session.

20. *Managing the portfolio of ongoing projects.* The division will continue to focus on enhanced implementation support, with participation of country portfolio managers in most supervision missions managed by cooperating institutions. It is also making innovative use of grant resources to complement and improve portfolio implementation. The ongoing NENA and CEN gender mainstreaming programmes, the participatory irrigation management programme, and the Near East and North Africa Management Training in Agriculture Programme will increasingly be used to: (i) build project-level, national and regional operational and management capacities; (ii) engage in policy dialogue; (iii) develop partnerships with concerned national, regional, bilateral and multilateral institutions; (iv) improve project implementation; and (v) increase knowledge generation and dissemination (through the KnowNet electronic network and regional workshops). The division will maintain current forms of proxy field presence in Albania, The Sudan and Syria through the use of locally hired staff and extensive travel by country portfolio managers. Subject to the findings of the ongoing assessment of IFAD's proxy field presence (and the deliberations of the Executive Board at its December 2003 session), the division intends to pilot one or two substantive field presence experiences (with enhanced locally staffed offices) where the challenges for policy change and substantive impact benefiting the poor are particularly demanding.

ANNEX 3

21. *Policy dialogue.* In 2004, the division will continue with its ongoing policy dialogue initiatives. These will include mountain area strategies/institutions, legal/regulatory framework for irrigation management, legal/regulatory framework for rural financial institutions, decentralization and governance, legal/regulatory framework for financial institutions, land reform and privatization, grass-roots institutions and rangelands management policies, and gender mainstreaming.

**PAYMENTS FOR SUPERVISION AND ADMINISTRATION OF IFAD PROJECTS
(USD '000)**

	2003		2004			
	Approved Numbers	Approved Budget	Real Increase/ (Decrease)	Price Increase	Proposed Budget	Number of Projects for which Charges are Projected ^a
African Development Bank	3.00	156	0	4	160	3.00
Andean Development Bank	13.50	508	102	(88)	522	16.20
Arab Fund for Economic and Social Development	12.90	502	(6)	20	516	12.75
Caribbean Development Bank	5.00	40	(2)	(3)	35	4.75
Central American Bank for Economic Integration	4.00	40	5	(14)	31	4.50
United Nations Office for Project Services ^b	141.97	6 782	(362)	565	6 985	134.40
West African Development Bank	10.65	290	(3)	12	299	10.55
World Bank ^c	9.70	489	181	102	772	11.40
Subtotal	200.72	8 807	(85)	598	9 320	197.55
Test projects for IFAD direct supervision ^d	13.7	595	0	18	613	13.7
Total	214.42	9 402	(85)	616	9 933	211.25

^a Numbers include pro rata apportionment for projects proposed during 2003 and exclude projects that may be approved during 2004. Similarly, pro rata apportionment has been applied for projects that are expected to be extended into 2004 or that are in suspension status. Numbers are also pro rated when approval of a loan is combined with the Belgian Survival Fund resources.

^b The budgeted average cost for 2004 is based on current best estimated full project equivalents (FPEs).

^c The allocation for 2004 assumes that 11.4 projects will be entrusted to the World Bank (8.7 projects in 1999; 11.2 in 2000; 12.4 in 2001; 10.7 in 2002; 9.7 in 2003). See extraordinary price increase of USD 132 000 for 2004 (USD 640 000 in 1999; USD 389 000 in 2000; USD 287 000 in 2001; USD 199 000 in 2002; USD 164 000 in 2003) indicated separately in Table 5.

^d In accordance with Resolution 102/XX adopted by the Governing Council at its Twentieth Session and document EB 97/61/R.12 presented to the Sixty-First Session of the Executive Board.

**STAFF COSTS
(USD '000)**

	2003				2004					
	Budget @1.070	Restated @0.898	OE1 @0.898 Separately	Budget Net of OE	Real Increase/ (Decrease)	Price Increase	Proposed Budget @0.898	Professional	General Service	Other
Salaries and post adjustment	18738	<u>21709</u>	1068	20641		857	<u>21498</u>	13052	8446	
Education grants and other allowances	1847	<u>1909</u>	58	1851		400	<u>2251</u>	2013	238	
Pension and medical plan contributions	6754	<u>7055</u>	264	6791		511	<u>7202</u>	3735	2485	982
Home leave	294	<u>326</u>	32	294		5	<u>299</u>	299		
Repatriation and separation payments	1802	<u>1919</u>	78	1841		75	<u>1916</u>	889	1027	
Relocation and recruitment	247	<u>291</u>		291			<u>298</u>			298
Regular Staff	<u>29682</u>	<u>33209</u>	<u>1500</u>	<u>31709</u>	<u>0</u>	<u>1755</u>	<u>33464</u>	<u>19988</u>	<u>12196</u>	<u>1280</u>
Short-term temporary staff	2579	2774	244	2530		101	2631			
Overtime	272	324	12	312		11	323			
Training	401	415		415		8	423			
Total	<u>32934</u>	<u>36722</u>	<u>1756</u>	<u>34966</u>	<u>0</u>	<u>1875</u>	<u>36841</u>			

a

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

ANNEX 5B

GOVERNING BODY AND OTHER OFFICIAL MEETINGS
(USD '000)

	2003		2004		
	Budget @1.070	Restated @0.898	Real Increase/ (Decrease)	Price Increase	Proposed Budget @0.898
Governing Council					
Professional and temporary support staff (salaries/allowance/travel/subsistence)	338	403		13	416
Communications, security and other services	64	76	-	2	78
Supplies, printing and miscellaneous	140	149	-	4	153
Subtotal	542	628		19	647
Executive Board and subcommittees					
Professional and temporary support staff (salaries/allowance/travel/subsistence)	1 179	1 344		47	1 391
Executive Directors (travel and subsistence)	65	76	0	2	78
Communications, security and other services	22	26	0	-	26
Supplies, printing and miscellaneous	31	37	0	1	38
Subtotal	1 297	1 483	-	50	1 533
Grand Total	1 839	2 111	-	69	2 180

ANNEX 5C

STAFF LEVELS FOR 2004^a

	Professional and Higher Grade Staff							Support Staff
	AP	D-2	D-1	P-5	P-4	P-2/3	Total	
Office of the President and the Vice-President (OPV)								
Office of the President		1			1		2	3
Office of the Vice-President				1			1	1
Office of Internal Audit				1	1	1	3	1
Office of the General Counsel			1		3	1	5	4
Total OPV	0	1	1	2	5	2	11	9
Programme Management Department (PMD)								
Office of the Assistant President	1			2	2	1 ²	6	3
Africa I Division			1	5	4		10	8
Africa II Division			1	6	2	1	10	7
Asia and the Pacific Division			1	7		1	9	7
Latin America and the Caribbean Division		1		6	1		8	7
Near East and North Africa Division			1	6	1		8	6
Technical Advisory Division			1	7			8	6
Total PMD	1	1	5	39	10	2	59	44
Finance and Management Department (FAD)								
Office of the Assistant President	1						1	1
Office of the Controller		1		5	1	1	8	26.5
Office of the Treasurer			1		2	2	5	7
Office of Human Resources			1	2	1	1	5	8
Management Information Systems			1	1	3	2	7	17.5
Administrative Services				1	1	1	3	23.5
Total FAD	1	1	3	9	8	7	29	83.5
External Affairs Department (EAD)								
Office of the Assistant President	1						1	2
Communications			1	1	3		5	5
Policy			3	2	1		6	4
Resource Mobilization				1	2		3	2
Office of the Secretary			1	2	5	3	11	24.5
Total EAD	1	0	5	6	11	3	26	37.5
Grand Total^b	3	3	14	55	33	13	121	174

^a The President and the Vice President are not included in the staff figures.

^b Does not include the Office of Evaluation (see Annex 9, Table 2).

ANNEX 5D

2004 STAFF LEVELS ^{a b}
FUNDED FROM SERVICE CHARGES ON SUPPLEMENTARY FUND
AND ASSOCIATE PROFESSIONAL OFFICER ARRANGEMENTS

	Professional and Higher Grade Staff							Support Staff
	AP	D-2	D-1	P-5	P-4	P-2/3	Total	
Programme Management Department (PMD)								
Office of the Assistant President								1
Technical Advisory Division								1
Total PMD								2
Finance and Administration Department (FAD)								
Office of the Controller					1		1	3
Office of the Treasurer								1
Office of Human Resources					1		1	2
Total FAD					2		2	6
External Affairs Department (EAD)								
Resource Mobilization						1	1	1
Total EAD						1	1	1
Grand Total					2	1	3	9

^a These positions will vary dependent upon the level of service charges receivable in 2004.

^b The two professional and two general service staff funded under the Belgium Survival Fund are not included.

**OTHER PROGRAMME-RELATED
ACTIVITIES AND STUDIES^a
(USD '000)**

		2003		2004		
		Budget @ 1.070	Restated @0.898	Real Increase/ (Decrease)	Price Increase	Proposed Budget @0.898
A.	Strategy and related costs	71	73	0	1	74
i)	Strategy development	71	73	0	1	74
B.	Project audits and related costs	5	5	-	-	5
i)	Audits of loans and grants initiated by IFAD	5	5	-	-	5
Grand Total		76	78	-	1	79

^a For 2003, this budget category also contained the Office of Evaluation (OE). In 2004 this forms part of the separate 2004 work programme and budget for OE under Section III and Annex 10.

OFFICE AND GENERAL EXPENSES
(USD '000)

	2003		2004		
	Budget @1.070	Restated @0.898	Real Increase/ (Decrease)	Price Increase	Proposed Budget @0.898
Security and custodial services	464	553	0	11	564
Communications	63	74		2	76
Utilities and premises	1 217	1 450		38	1 488
Supplies and printing	405	483	31	12	526
Office equipment and maintenance	201	240	(5)	5	240
Information and communication technology services	1 645	1 822	(17)	36	1 841
Other	160	187	(9)	4	182
Headquarters Expenses	4 155	4 809	-	108	4 917
External auditors' fees and expenses	75	89	-	2	91
Financial services	37	40	(40)	0	0
Legal services	24	29	3	1	33
Building – Technical Services	19	23	0	0	23
Specialist audit services	5	5	26	1	32
Consultancy services		0	11		11
Insurance against risk	56	56	0	1	57
Professional Services	216	242	-	5	247
Hospitality	48	57		1	58
Library, books and periodicals	91	97	-	2	99
North America Liaison Office	195	195		4	199
Other	36	43		1	44
Miscellaneous	370	392	-	8	400
Grand Total	4 741	5 443	-	121	5 564

**OTHER OPERATIONAL EXPENSES INCLUDING
POLICY AND RESOURCE MOBILIZATION
(USD '000)**

	2003		2004				
	Budget @1.070	Restated @0.898	OE Division @0.898	Budget net of OE Division	Real Increase/ (Decrease)	Price Increase	Proposed Budget @0.898
Duty travel	1 121	1 226	240	986	(23)	20	983
Special studies	112	114	73	41	(26)	0	15
Media, communication and networking	210	226	0	226		5	231
Annual Report and publications	283	337	0	337		8	345
Contributions to United Nations and other committees	126	126	0	126	20	5	151
Participating in and hosting of meetings	43	51	0	51	29	3	83
Total	1 895	2 080	313	1 767	-	41	1 808

2004 BUDGET ANALYSIS BY DEPARTMENT
(USD '000)

	Total 2004 Proposed Budget	Office of the President and Vice- President¹	External Affairs Department	Programme Management Department	Finance and Administration Department
Staff costs	36 841	3 265	7 139	13 069	13 368
Governing body and other official meetings	2 180	0	1 779	0	401
Other programme-related activities and studies	79	5	51	23	0
Office and general expenses	5 564	97	317	33	5 117
Other operational expenses, including policy and resource mobilization	1 808	245	918	293	352
Administrative budget (excluding contingency)	46 472	3 612	10 204	13 418	19 238
Programme Development Financing Facility	28 448	44	0	28 361	43
Direct charges against investment income	5 531	119			5 412

¹ Including the Office of Internal Audit and the Office of the General Counsel, which are grouped here for summarization purposes only.

2004 BUDGET ANALYSIS
OFFICE OF THE PRESIDENT AND VICE-PRESIDENT
(USD '000)

	Total ¹	Office of the President	Office of the Vice- President	Office of Internal Audit ¹	Office of the General Counsel ¹
Staff costs	3 265	1 094	534	525	1 112
Regular and fixed-term staff	2 885	1 075	488	425	897
Temporary staff	329		29	100	200
Overtime	51	19	17		15
Governing body and other official meetings	0	0	0	0	0
Governing Council	0				
Executive Board	0				
Other programme-related activities and studies	5	0	0	5	0
Project audits and related costs	5			5	
Evaluation and studies	0				
Office and general expenses	97	19	4	34	40
Professional services	65			32	33
Miscellaneous	32	19	4	2	7
Other operational expenses, including policy and resource mobilization	245	134	33	45	33
Duty travel	245	134	33	45	33
Evaluation Committee	0				
Administrative budget	3 612	1 247	571	609	1 185
Programme Development Financing Facility	44	0	0	0	44
Staff travel	44				44
Direct charges on investments	119				119

¹ These offices have been grouped together for summarization purposes only.

2004 BUDGET ANALYSIS BY DEPARTMENT
EXTERNAL AFFAIRS DEPARTMENT (EAD)
(USD '000)

	Total EAD	Office of the Assistant President	Office of Communications	Office of the Secretary	Office of Resource Mobilization	Office of Policy
Staff costs	7 139	519	1 075	3 391	586	1 568
Regular and fixed-term staff	6 412	433	1 075	2 964	586	1 354
Temporary staff	699	73		412		214
Overtime	28	13		15		
Governing body and other official meetings	1 779	64	0	1 715	0	0
Governing Council	345	64		281		
Executive Board	1 434			1 434		
Other programme-related activities and studies	51	51	0	0	0	0
Strategy and related costs	51	51				
Office and general expenses	317	10	1	95	0	211
Professional services	11					11
Miscellaneous	306	10	1	95	0	200
Other operational expenses, including policy and resource mobilization	918	45	517	104	46	206
Duty travel	280	45	51	45	22	117
Special studies	15					15
Media, communications and networking	231		231			
Annual Report and publications	279		235			44
Contributions to United Nations committees	30					30
Participation in and hosting of meetings	83			59	24	
Administrative budget	10 204	689	1 593	5 305	632	1 985

2004 BUDGET ANALYSIS BY DEPARTMENT
PROGRAMME MANAGEMENT DEPARTMENT (PMD)
(USD '000)

	Total PMD	Office of the Assistant President	Africa I Division	Africa II Division	Asia and the Pacific Division	Latin America and the Caribbean	Near East and North Africa Division	Technical Advisory Division
Staff costs	13 069	1 241	2 309	2 031	2 163	1 758	1 827	1 740
Regular and fixed-term staff	12 806	1 212	2 205	2 018	2 156	1 734	1 765	1 716
Temporary staff	189	19	97	6		10	43	14
Overtime	74	10	7	7	7	14	19	10
Governing body and other official meetings	0	0	0	0	0	0	0	0
Governing Council	0							
Executive Board	0							
Other programme-related activities and studies	23	23	0	0	0	0	0	0
Strategy and related costs	23	23						
Knowledge management	0							
Office and general expenses	33	7	4	3	5	3	8	3
Professional services	0							
Miscellaneous	33	7	4	3	5	3	8	3
Other operational expenses, including policy and resource mobilization	293	68	24	30	28	26	38	79
Duty travel	259	68	24	30	22	26	38	51
Annual Report and publications	6				6			
Contributions to United Nations and other committees	28							28
Administrative budget	13 418	1 339	2 337	2 064	2 196	1 787	1 873	1 822
Programme Development Financing Facility	28 361	209	5 612	5 782	6 041	4 474	4 702	1 541
New project/programme development	12 513	61	2 443	2 681	2 176	2 073	1 925	1 154
Ongoing project portfolio	14 086	54	2 851	2 775	3 553	2 145	2 468	240
Staff travel	1 762	94	318	326	312	256	309	147

2004 BUDGET ANALYSIS BY DEPARTMENT
FINANCE AND ADMINISTRATION DEPARTMENT (FAD)
(USD '000)

	Total FAD	Office of the Assistant President	Office of the Controller	Treasury	Human Resources	Management Information Systems	Administrative Services	Headquarters Expenses
Staff costs	13 368	356	3 617	1 380	1 423	2 574	2 191	1 827
Regular and fixed-term staff	11 063	352	3 169	1 168	1 241	2 090	2 061	982
Relocation and recruitment	298							298
Temporary staff	1 414		408	203	167	468	44	124
Overtime	170	4	40	9	15	16	86	
Training	423							423
Governing body and other official meetings	401	0	0	0	0	24	377	0
Governing Council	302					16	286	
Executive Board	99					8	91	
Other programme-related activities and studies	0	0	0	0	0	0	0	0
Strategy and related costs	0							
Knowledge management	0							
Office and general expenses	5 117	10	94	9	3	0	84	4 917
Headquarters expenses	4 917							4 917
Professional services	171		91				80	
Miscellaneous	29	10	3	9	3	0	4	0
Other operational expenses, including policy and resource mobilization	352	11	92	42	124	15	68	0
Duty travel	199	11	92	42	31	15	8	
Annual Report	60						60	
Publications	0							
Contributions to United Nations and other committees	93				93			
Administrative budget	19 238	377	3 803	1 431	1 550	2 613	2 720	6 744
Programme Development Financing Facility	43	0	43	0	0	0	0	0
Staff travel	43		43					
Direct charges on investments	5 412			5 412				

**DIRECT CHARGES ON INVESTMENT
ESTIMATE OF DIRECT CHARGES FOR 2003/2004**

	Year 2003 Budget	Submitted Year 2004 Budget
	USD	USD
Management fees		
Global fixed income ^a	1 760 000	2 072 000
Diversified fixed income	920 000	1 000 000
Equities	1 020 000	700 000
Global Tips		400 000
Subtotal	3 700 000	4 172 000
Custodian fees		
Core services ^b	150 000	300 000
Auxiliary services	118 000	120 000
Transaction costs ^c	72 000	120 000
Out-of-pocket expenses	60 000	60 000
Subtotal	400 000	600 000
Advice and information services		
Financial advisors	120 000	200 000
Legal and tax advice fees and travel expenses ^d	75 000	119 000
Financial information providers	200 000	200 000
Consultants	60 000	60 000
Subtotal	455 000	579 000
Total	4 555 000	5 351 000

^a The fee increases dependent on the net market asset value of each portfolio, as it raises the fees also increase.

^b Core services have become more expensive and sophisticated (also during 2003).

^c Transaction costs were actually USD 200 000 in 2003 and reallocations had to be made to cover this, they will also be an increase in 2004 due to the ALM activities.

^d Legal and tax advice fees and travel expenses were not properly estimated for 2003 and the 2004 proposal is based on the actual 2004 requirements.

SUMMARY OF PROJECTED 2004 RESOURCES AVAILABLE

	USD million
Projected ACA carry-forward 1 January 2004	-283
Projected inflows:	
Loan reflows	190
Investment income	79
Contributions	156
Various ^a	50
Total	<u>475</u>
Projected outflows:	
Lending programme	416
TAG programme	33
PDFF	30
Administrative budget	52
OE Budget	4
Various – HIPC/SCP/ASMC	44
Total	<u>579</u>
Projected ACA carry-forward 31 December 2004	387
Projected 2004 use of ACA	104

^a Excluding exchange rate adjustment and provisions for contributions.

TABLE 1. OE PRIORITIES IN RELATION TO IFAD'S CORPORATE PRIORITIES AND PLANNING FRAMEWORK FOR 2004

Corporate Priorities for 2004 ^a	OE Priorities for 2004
1. Independent evaluation function	1.1 Full Implementation of the evaluation policy
2. Independent external evaluation (IEE) of IFAD operations	2.1 Overall supervision of the IEE process
3. Measuring results and impact	3.1 Independent evaluation of selected IFAD operations and policies 3.2 Consistent use of methodological framework for project and country programme evaluations 3.3 Production of the second ARRI 3.4 Promoting evaluation capacity-building at project level through the customization of the M&E guide
4. IFAD's catalytic role	4.1 Undertaking corporate-level evaluations, selected country programme evaluations and thematic evaluations

^a As contained in the IFAD Corporate Priorities and Planning Framework for 2004.

TABLE 2. OE STAFF LEVELS FOR 2004

Human Resource Category	Numbers
Professional Staff^a	
Director	1
Deputy Director	1
Evaluators	5
Evaluation Information Officer	1 ^b
General Service Staff	
Administrative Assistant	1
Evaluation Assistants	6 ^c
GIS Assistant	1 (part-time)

^a Currently OE has three donor-funded associate professional officers (APOs), whose contracts will expire in 2004.

^b Subject to the positive outcome of a job evaluation and grade verification analysis that the Office of Human Resources will conduct at the beginning of 2004, the current position of Evaluation Information Assistant will be transformed into a professional post to reflect changes that have occurred in the job description of the concerned staff over the years.

^c One of the general service staff, who is presently recruited against a temporary post on fixed-term conditions (as per the provisions in Chapter X of the Human Resources Handbook), will be converted into a permanent evaluation assistant post.

OE BUDGET FOR 2004
(USD '000)

	2003 ^a		2004		
	Using 77th Session of Executive Board EUR/USD rate of 1.070	Restated (at EUR/USD rate of 0.898)	Real Increase/ (Decrease)	Price Increase/ (Decrease)	Proposed Budget ^b
Regular and fixed-term staff					
Payroll-derived items	1 204	1 369	(30)	55	1 394
Other entitlements/benefits	121	131	(35)	26	122
Subtotal	1 325	1 500	(65)	81	1 516
Temporary staff	208	244	0	7	251
Overtime	10	12	0	1	13
Evaluation work					
- Project evaluation	622	658	222	17	897
- CPEs	413	437	(69)	9	377
- TEs	442	467	(247)	4	224
- CLEs and other activities ^c	323	341	108	8	457
Subtotal	1 800	1 903	14	38	1 955
Evaluation Committee	0	0	60	0	60
Travel	219	240		5	245
Special studies	72	73	(73)		0
Subtotal	3 634	3 972	(64)	132	4 040
Contingency					202
Grand Total					4 242

^a In 2003, OE made use of USD 305 000 from TAG resources. These funds were mobilized for the customization of the M&E Guide in PF and PN regions, the publication of the M&E Guide in Arabic, French and Spanish, and the Indonesia CPE.

^b Using average 2003 EUR/USD rate at 0.898.

^c Previously known as "Workshop, training and other evaluation activities".

**OE 2004 ACTIVITY-BASED BUDGET
(USD)**

OE Priorities and Objectives for 2004 ^a		Evaluation Work	Staff Costs	Total
Priority 1	Evaluation work requested by the Evaluation Committee and Executive Board and/or included in the Report of the Consultation on the Sixth Replenishment of IFAD's Resources	272 000 (11%)	416 000 (23%)	688 000 (16%)
Priority 2	Conduct corporate-level, country programme, thematic and project evaluations	1 960 000 (80%)	1 128 000 (63%)	3 088 000 (73%)
Priority 3	Further development of the evaluation methodology	230 000 (9%)	236 000 (13%)	466 000 (11%)
Total		2 462 000 (100%)	1 780 000 (100%)	4 242 000 (100%)
^a Staff cost is distributed on the basis of OE's experience in 2002-03 in allocating staff time, combined with the planned new realignment of staff within OE. This corresponds to 23%, 63% and 13% for the three priorities respectively.				

ANNEX 11

IEE BUDGET
(As approved by the Executive Board^a in September 2003)

A. Total Cost of the Evaluation Team		USD '000
A.1 Remuneration		
Team leader	12 person-months	378
Senior experts	17 person-months	433
All other personnel	14 person-months	284
Total for (A)	43 person-months	1 095
A.2 Airfare		
Travel to Rome and five IFAD regions		42
A.3 DSA		
For Rome and field work in five IFAD regions		196
A.4 In-country expenses		
National evaluation teams and vehicle rental		185
Total for (A)		1 518
B. Total cost for OE advisers and consultants		
B.1 Short-term consultants		76
B.2 Senior independent advisers		38
B.3 Travel and DSA for advisers and consultants		52
Total for (B)		166
C. Total Cost of Steering Committee		
C.1 Steering Committee meetings		8
C.2 Provision for developing Member States' participation		10
Total for (C)		18
Grand Total (A) + (B) = (C)		1 702^b
<p>^a Document EB 2003/79/R.7.</p> <p>^b OE has been informed by FC that donor contributions in 2003 were received from Denmark, Norway and Switzerland for a total of USD 300 000.</p>		

OE WORK PROGRAMME FOR 2004

Priority Area	Type of Work	Evaluation Activities	Start Date	Expected Finish
A. Evaluation work requested by the Evaluation Committee and Executive Board and/or included in the Report of the Sixth Consultation on IFAD's Resources.	1. Independent External Evaluation	Supervision of the Independent External Evaluation of IFAD	April 2003	Dec 2004
	2. Evaluation Committee	Three regular sessions and additional special sessions, as necessary	Jan 2004	Dec 2004
		Review of the terms of reference and rules of procedure of the Evaluation Committee as per decision in April 2003 Executive Board	Jan 2004	Dec 2004
		Field visit to Indonesia – CPE National Roundtable Workshop	Mar 2004	Mar 2004
	3. ARRI	Annual Report on the Results and Impact of IFAD's Operations	Jan 2004	Sep 2004
4. OE Work Programme & Budget	Preparation of the 2005 OE Work Programme and Budget			
B. Conduct Corporate Level, Country Programme, Thematic and Project Evaluations.	5. Corporate-Level Evaluations	Evaluation of IFAD's Experience with Direct Supervision Pilot Programme OR Evaluation of IFAD's Current Approach and Policy on Gender	Jan 2004	Dec 2004
	6. Country Programme Evaluations	Benin, PA	Sep 2003	Sep 2004
		Bolivia, PL	Sep 2003	Sep 2004
		Egypt, PN	Nov 2003	Nov 2004
		Indonesia, PI	Mar 2003	Mar 2004
	7. Thematic Evaluations	Marketing & Competitiveness in Africa, PA	Nov 2003	Nov 2004
		Regional Workshop on Agriculture Extension and Farmers Innovations, PA	Feb 2004	Feb 2004
		Decentralisation Efforts in Africa, PF	Oct 2003	Oct 2004
Organic Agriculture in Asia*, PI		Nov 2003	Nov 2004	

* To be financed by Italian Supplementary Funds under an agreement reached with IFAD in November 2002.

Priority Area	Type of Work	Evaluation Activities	Start Date	Expected Finish
B. Conduct Corporate Level, Country Programme, Thematic and Project Evaluations. (cont.)	8.1 Interim Project Evaluations	Ethiopia: Special Country Programme II, PF	Sep 2004	Mar 2005
		Gambia: Rural Finance & Community Initiatives, PA	Sep 2004	Mar 2005
		Guinea: Fouta Djallon Local Develop. and Agric. Rehabil. Programme, PA	Mar 2004	Sep 2004
		India: North East Resources Community Management Project, PI	Oct 2004	Apr 2005
		Jordan: Agric. Res. Mgmt Project in the Governat. of Korak and Tafilat, PN	Dec 2003	Jun 2004
		Laos: Northern Sayabouri Rural Dev. Project, PI	Jan 2004	Jul 2004
		Paraguay: Peasant Development Fund Credit Project – Eastern Region, PL	Jan 2004	Jul 2004
		Senegal: Rural Micro-enterprise Project, PA	Jan 2004	Jul 2004
		Tunisia: Development Project of Siliana, PN	Dec 2003	Jun 2004
		Uganda: District Development Support Programme, PF	Sep 2004	Mar 2005
		Venezuela: Economic Development of Poor Rural Communities Project, PL	Oct 2004	Apr 2005
		Vietnam: Ha Giang Project, PI	Jan 2004	Jul 2004
		Vietnam: Quang Binh Project, PI	Jan 2004	Jul 2004

Priority Area	Type of Work	Evaluation Activities	Start Date	Expected Finish
B. Conduct Corporate Level, Country Programme, Thematic and Project Evaluations. (cont.)	8.2. Completion Evaluations	Eritrea: Eastern Lowlands Wadi Project, PF	Sep 2003	Mar 2004
		Lebanon: Smallholder Livestock Sector in the Bekaa Valley, PN	Sep 2003	Mar 2004
C. Further development of the evaluation methodology.	9. Regionalization M&E Guide	Regionalization of the Practical Guide for M&E in PF Region	2003	2004
		Regionalization of the Practical Guide for M&E in PN Region	2003	2004
	10. Methodological Work	Further Development of the methodology for CPEs	Jan 2004	Dec 2004
		Training of OE consultants in the new project evaluation methodology (MFE)	Jan 2004	Jun 2004
		Make proposal to the Evaluation Committee on assigning weights in the MFE	Jan 2004	Sep 2004