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Investing in rural people

Report of the Audit Committee on IFAD's 2019 Results-based Programme of Work and Regular and Capital Budgets, and the IOE Results-based Work Programme and Budget for 2019 and Indicative Plan for 2020-2021

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For: Review

Report of the Audit Committee on IFAD's 2019 Results-based Programme of Work and Regular and Capital Budgets, and the IOE Results-based Work Programme and Budget for 2019 and Indicative Plan for 2020-2021

1. Management introduced the agenda item noting that 2018 had been an important year for defining and implementing reforms to enhance IFAD's capacity to deliver and that 2019, as the first year of the Eleventh Replenishment of IFAD's Resources (IFAD11), would be a year of consolidation and increased delivery. Management highlighted that the 2019 programme of loans and grants (PoLG) is planned at US\$1.76 billion, representing approximately 50 per cent of the total IFAD11 PoLG. This PoLG is being developed based on the new country selectivity criteria and the revised formula for the performance-based allocation system.
2. Management described the key priorities of the 2019 budget, including:
 - (i) achieving the planned PoLG with better and faster delivery, and improved project performance;
 - (ii) implementing the road map for IFAD's financial strategy, with particular emphasis on enhancing financial risk management;
 - (iii) implementing the ongoing reforms and enhancing institutional effectiveness and efficiency, including strengthening internal controls and compliance functions for a decentralized environment, completing staffing of the new organizational structure, and establishing the Change, Delivery and Innovation (CDI) unit; and
 - (iv) increasing the visibility of IFAD's work.
3. In relation to the final proposed net regular budget of US\$158.21 million for 2019, Management drew the Committee's attention to the fact that the final budget proposal amount was lower than that proposed in the high-level preview. The final proposal is for a zero real growth budget for 2019, with the 1.7 per cent nominal increase composed entirely of price increases. These were largely the result of the change in the EUR:US\$ exchange rate from EUR 0.897:US\$1 in the 2018 budget, to EUR 0.841:US\$1 in the 2019 budget.
4. The proposed capital budget for 2019 was US\$2.645 million. It was noted that this proposal was slightly higher than indicated in the high-level preview. This is due to the inclusion of funding for the automated voting system for the Governing Council and investments required for IFAD's financial risk management and treasury systems.
5. Management also highlighted that 2018 budget utilization is expected to be around 95 per cent. A request is being made to carry forward up to 6 per cent of the 2018 budget, compared to the normal carry-forward level of 3 per cent. This would provide Management with additional resources to support implementation of the increased mandatory age of separation, as well as to meet one-time costs related to the findings and recommendations of the recent external financial risk assessment and the Corporate-level Evaluation of IFAD's Financial Architecture.
6. The Deputy Director, Independent Office of Evaluation of IFAD (IOE), presented the IOE results-based work programme and budget, focusing on the activities planned for 2019:
 - (i) a corporate-level evaluation on IFAD's support to innovation and productivity growth for inclusive and sustainable smallholder agriculture;
 - (ii) five country strategy and programme evaluations (one in each region);
 - (iii) one evaluation synthesis report;
 - (iv) six project performance evaluations;
 - (v) the validation of all project completion reports; and
 - (vi) the flagship Annual Report on Results and Impact of IFAD Operations. In addition, the external peer review of the evaluation function at IFAD was progressing as planned, and would be finalized in 2019. The IOE administrative budget proposed for 2019 was

US\$5.98 million. In addition to this, the 2019 portion of the external peer review is equal to US\$200,000. This is a one-time cost. As explained by IOE, differences with respect to the preview presented in September to the Audit Committee, Evaluation Committee and Executive Board are solely related to the EUR:US\$ exchange rate adopted by IFAD at the corporate level for 2019. Moreover, it was noted that IOE has been taking measures to improve its cost-efficiency for several years.

7. During its deliberations on the proposed programme of work and budget, the Committee expressed support for the strategic priorities outlined for 2019 and the key areas of increased investment, including in risk management, strengthened internal controls and creation of the CDI unit. The Committee commended Management for having incorporated the feedback provided on the high-level preview document in September and for the efforts to achieve efficiencies and contain costs, including travel and consultancy costs. The Committee recognized that delivering a zero real growth budget proposal during a major organizational change process was a significant achievement. The 1.7 per cent price increase was considered justified, particularly given the exchange rate impact. Members also appreciated the transparency provided in the document regarding the level of savings being achieved, and indicated that reporting on savings achieved throughout the replenishment period would be welcomed.
8. Given the zero real growth budget, and the significant PoLG planned in 2019, the Committee sought reassurance that Management could deliver on its ambitions, without compromising on quality, and that adequate resources were being dedicated to programme delivery.
9. The Committee noted the improvement in the administrative efficiency ratios for 2019 and discussed the importance of focusing annual budget discussions on achievement of target efficiency ratios, rather than on the level of annual budget increases or decreases, in isolation from the PoLG. Some Members indicated that it would be preferable to concentrate on achieving efficiency gains by increasing the PoLG, rather than by limiting the administrative budget.
10. The Committee indicated its support for Management's request to carry forward up to 6 per cent of the 2018 budget but requested that the Audit Committee and Executive Board be provided with information on the utilization of these funds.
11. Management reassured the Committee that zero real growth would be achieved and that the 2019 PoLG would be delivered without affecting quality. Management also provided clarification on the sources of the envisaged savings and efficiencies. Moreover, details of how the carry-forward funds were used would be reported to the Audit Committee and Executive Board in accordance with the established practice.
12. Following the discussions, the 2019 results-based programme of work and regular and capital budgets, along with the IOE results-based work programme and budget for 2019 and indicative plan for 2020-2021 were deemed reviewed. It was agreed that the document would be submitted for the approval of the Executive Board at its 125th session in December 2018.