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Investing in rural people

## **Report of the Audit Committee on IFAD's 2020 Results-based Programme of Work and Regular and Capital Budgets, and the Independent Office of Evaluation of IFAD's Results-based Work Programme and Budget for 2020 and Indicative Plan for 2021-2022**

### **Note to Executive Board representatives**

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**For: Review**

## **Report of the Audit Committee on IFAD's 2020 Results-based Programme of Work and Regular and Capital Budgets, and the Independent Office of Evaluation of IFAD's Results-based Work Programme and Budget for 2020 and Indicative Plan for 2021-2022**

1. Management introduced the agenda item, noting that the final 2020 budget proposal had been prepared following an extensive internal budget preparation process, and taking into consideration the feedback received from the Audit Committee and Executive Board on the high-level preview in September. Management further highlighted that the 2020 budget includes a proposal for a separate investment budget to be set aside and utilized over a two-year time frame.
2. Management drew the Committee's attention to the projected programme of loans and grants for 2020, amounting to US\$1.062 billion, which is in line with the Eleventh Replenishment of IFAD's Resources (IFAD11) target of US\$3.5 billion and ambition to ensure the effective implementation and high quality of the project pipeline.
3. The key priorities and the primary cost drivers of the 2020 budget were also outlined. Management highlighted the importance of the 2020 budget, which is targeted to:
  - (i) A continued focus on strengthening performance and quality of the programme with a view to achieving IFAD11 targets;
  - (ii) Greater and effective engagement with a growing number of stakeholders, including governing bodies as part of the IFAD12 Consultation;
  - (iii) Consolidation of internal reforms and revamping of the financial architecture; and
  - (iv) Implementation of the comprehensive two-year targeted capacity investment.
4. All real cost increases to adequately resource strategic activities were fully absorbed by reductions in staff and non-staff cost categories following a systematic review of departmental requests. In relation to the proposed net regular budget of US\$157.9 million for 2020, Management highlighted that the amount of the final budget proposal was lower than that proposed in the high-level preview, and that the nominal decrease of 0.19 per cent was largely the result of the change in the EUR:US\$ exchange rate.
5. The proposed capital budget for 2020 was indicated as US\$4.445 million, covering cyclical information technology operations, maintenance of headquarters and IFAD country office enhancements and investments in financial systems related to the strategic reshaping of the financial architecture.
6. Management acknowledged that the targeted capacity investment budget, provisionally estimated at US\$17 million, was significant and stressed that, in recognizing the pivotal role of this budget, Management would seek the right balance between the need to act now, the need to dedicate time to a rigorous comprehensive analysis and the need to provide timely details to the Members.
7. Management highlighted IFAD's commitment to comply with the request of Executive Board representatives to develop an implementation plan with details on the cost implications of selected options for addressing human capital requirements, noting that a special effort had already been made in bringing together insights from the Human Resources Study and business process review. The need to build on the momentum to implement necessary reforms was

- reiterated. Management stressed that wherever changes could be made without cost implications it was taking immediate action to do so.
8. 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 2020, which had been revised since the preview to take into account the inputs of the external peer review, in particular:
    - (i) Six project performance evaluations;
    - (ii) A thematic evaluation on IFAD's contribution to smallholder adaptation to climate change;
    - (iii) A joint corporate-level evaluation of the evaluation units of Rome-based United Nations agencies; and
    - (iv) New country strategy and programme evaluations, one impact evaluation and project completion report validations.
  9. The IOE administrative budget proposed for 2020 is US\$6.05 million which, excluding the below-the-line request of US\$187,000 for recruitment of the new IOE Director, represents a 1.91 per cent nominal decrease compared to the 2019 budget, largely resulting from the downward effect of the EUR:US\$ exchange rate. This proposed budget amounts to 0.55 per cent of IFAD's expected programme of loans and grants for 2020, remaining below the cap of 0.9 per cent.
  10. During its deliberations on IFAD's proposed programme of work and budget, the Committee welcomed the nominal decrease in the 2020 budget and expressed support for IFAD's change agenda, recognizing the work and efforts made in the Human Resources Study and the need to undertake timely structural reforms in order to build on the momentum and ensure an adequate workforce.
  11. The Committee requested clarification on the targeted capacity investment budget, including details on the specific actions to be funded by this budget, inquiring if management could fund some non-recurring costs from carry forward resources, the timing for such actions over the two-year time frame, expected benefits, and the rationale for funding them under a separate budget rather than within the regular administrative budget and capital budget. It was also noted that some of the estimated expenditures related to core functions of the institution and were expected to be incorporated into the core budget to keep recurring personnel costs out of the capacity investment budget.
  12. Such clarification was needed to provide a sufficient level of information to allow for an informed decision-making by the Executive Board, before submitting the proposal to the Governing Council.
  13. The Committee expressed support for a carry-forward budget of up to 5 per cent in 2020, recognizing this as an effective mechanism to encourage savings and efficiencies. In relation to the targeted capacity investment budget, the question was raised as to whether part of the strategic, non-recurring expense requirements could be funded from the carry-forward budget. Greater prioritisation was needed. A question was also raised on the efficiency ratios reported in the budget document.
  14. With regard to the IOE's results-based work programme and budget, the Committee expressed support for the proposal and requested clarification on the carry-over of IOE's budget and on the feedback received from the Evaluation Committee on the budget.
  15. Management reassured the Committee that, in the context of the targeted capacity investment budget, a detailed comprehensive plan is being prepared and will be communicated to members in order to provide full transparency and accountability

- on the actions to be undertaken and their expected benefits, clearly segregating the capital investments from recurring expenditures.
16. The need for these investments to form part of one holistic, tightly earmarked package was reiterated by Management, given that the different components of this budget are resourcing mutually reinforcing activities to be implemented concurrently. Moreover, a proper tracking of budget utilization and actions would be ensured, as had been done in the past for similar budgets segregated from regular administrative resources and earmarked for specific purposes, such as the corporate-level evaluation and effectiveness budget.
  17. Management further explained that carry-forward funds normally serve a different purpose than that envisaged for the targeted capacity investment, the former being earmarked to cover strategically unforeseen budget requirements emerging during the year. Management acknowledged the need to spend time and determine which costs would be recurring and which were not. It was also clarified that the efficiency ratios are reported over a three-year period for each replenishment cycle, providing a better measure of IFAD's operational efficiency in relation to the trajectory of the programme of loans and grants.
  18. The Deputy Director, Independent Office of Evaluation of IFAD (IOE) clarified that IOE has followed IFAD rules regarding the carry-over that can be appropriated and expects to follow the same rules adopted by IFAD Management in the future. The carry-over budget was used in 2019 for a stocktaking on country programme evaluations conducted in collaboration with the Evaluation Cooperation Group of the multilateral development banks, for strengthening an ongoing impact evaluation and for producing a book on information and communication technology for evaluation, as a follow-up to an international conference organized by IOE in 2017.
  19. Following the discussions, the 2020 results-based programme of work and regular and capital budgets, along with the IOE results-based work programme and budget for 2020 and indicative plan for 2021-2022, were deemed reviewed. It was agreed that the document would be submitted to the Executive Board at its 128<sup>th</sup> session in December 2019, together with additional documentation on the detailed action plan related to the proposed targeted capacity investment budget.