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Report of the Audit Committee on IFAD's 2021 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 2021, and Indicative Plan for 2022-2023

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For: Review

Report of the Audit Committee on IFAD's 2021 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 2021, and indicative plan for 2022–2023

1. Management introduced this agenda item, noting that the final 2021 budget proposal was prepared following an extensive internal budget preparation process and took into consideration the feedback received from the Audit Committee and Executive Board on the high-level preview in September. Management further highlighted the challenges posed to IFAD by COVID-19 in 2020, which had led to a proposal for an exceptional 10 per cent carry-forward. It was also mentioned that IFAD is presenting a zero-real-growth budget for the third consecutive year, but that a certain increase in future budgets is deemed necessary to deliver more results, provided there is a positive outcome of the Twelfth Replenishment of IFAD's Resources (IFAD12).
2. Management drew the Committee's attention to the total active portfolio for 2019, amounting to US\$8.6 billion. This metric is more stable than the programme of loans and grants (PoLG) or programme of work, which is why Management decided to draw more attention to efficiency ratio #3 (total active portfolio/total costs) which is projected to trend positively in the next years.
3. The key corporate priorities for 2021 were also outlined. Management highlighted that the 2021 budget focuses on:
 - (i) Strengthening the agility, capacity and adaptability of IFAD's workforce and field presence, as well as its proximity to beneficiaries;
 - (ii) Diversifying and expanding IFAD's resource base; and
 - (iii) Ensuring fiscal responsibility through greater financial sustainability and enhanced enterprise risk management.
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. For 2021 there is no change in the EUR:US\$ exchange rate and the proposed net regular budget for 2021 is US\$159.4 million, in line with the high-level preview.
5. The proposed capital budget for 2021 was indicated as US\$6.75 million, covering cyclical capital expenditures that have an economic life of more than one year, as well as major ICT and other investment projects. Although elevated by historical standards, the proposal is at the lower end of the range indicated in the high-level preview.
6. The Interim Officer-in-Charge, Independent Office of Evaluation of IFAD (IOE), presented the IOE results-based work programme and budget, focusing on the activities planned for 2021, which were revised following the preview. In 2021, IOE will undertake: (i) a subregional evaluation focusing on fragility in West Africa; (ii) a project cluster evaluation of rural enterprise development; (iii) a corporate-level evaluation of progress made in IFAD's decentralization reform; (iv) five country strategy and programme evaluations; (v) an evaluation synthesis on government performance; (vi) four project performance evaluations; (vii) validations of all completion reports; (viii) the 19th Annual Report on Results and Impact of IFAD operations (ARRI).
7. IOE will also complete a thematic evaluation of IFAD's contribution to smallholder adaptation to climate change; and a joint corporate-level evaluation of the evaluation units at the Rome-based United Nations agencies.

8. Finally, as recommended by the 2019 external peer review of IFAD's Evaluation Function, IOE will: (i) draft a new evaluation manual in 2021, in collaboration with Management (to be completed in 2022); and (ii) prepare a multi-year IOE evaluation strategy, outlining the specific areas of thematic and geographical priorities over the medium and long term.
9. The proposed 2021 IOE budget amounts to US\$5.81 million. This represents a 0.85 per cent nominal decrease against the 2020 approved budget of US\$5.86 million, the second consecutive decrease for IOE. According to the IFAD PoLG figures available in September 2020, the proposed 2021 IOE budget was 0.86 per cent of IFAD's expected PoLG, which is below the IOE budget cap of 0.9 per cent adopted by the Executive Board. With the latest PoLG figure of US\$778 million recently released by IFAD Management, the share would be reduced to 0.75 per cent.
10. Committee members asked questions about the use of the IOE administrative budget in 2020 and the estimated costs for recruitment of the Director, IOE.
11. During its deliberations on IFAD's proposed programme of work and budget, the Committee welcomed the high quality improvements and details of the 2021 budget document following the earlier preview and expressed support for IFAD's proposal for a higher carry-forward in the light of the exceptional circumstances created by the COVID-19 pandemic. In the latter perspective, it was emphasized that a 10 per cent carry-forward in 2021 is to be considered extraordinary and needs to return to the normal level of below 3 per cent thereafter.
12. The Committee reiterated that only one-time expenditures can be funded from the carry-forward and that regular activities need to be accommodated in the regular budget. More detail was requested on the areas for which the 10 per cent carry-forward is supposed to be allocated.
13. More information was also sought on the rationale for the increase of the capital budget as well as on the use of consultants in the institution, which should in principle be limited as well as confined to non sensitive area, and the reasoning behind lower travel costs. Elaboration would be welcomed on how IFAD's decentralization plans impact the budget in 2021 and beyond.
14. The Committee voiced its concern about the decline of funding for the Programme Management Department (PMD) despite its increase by 27 full-time equivalents, and asked for information about business continuity in the light of the ongoing workforce adjustments, including through the separation programme. Concern was also voiced for the newly proposed budget cut for the Office of Audit and Oversight, about which the Committee learned when discussing a previous item and asked for a follow up.
15. The Committee also noticed some inconsistency in the budget and the Resources Available for Commitment documents regarding the PoLG and asked for better alignment of IFAD documentation in the future. It also enquired whether the IFAD11 PoLG target is still attainable, while appreciating its gender sensitivity. A plan would be appreciated on how IFAD intends to measure and manage its efficiency in future years. A peer review against comparable institutions was mentioned as a helpful complement in that regard.
16. Management reassured the Committee that, in the context of the proposed carry-forward, a list of target areas will be prepared for greater transparency and that, the 10 per cent being exceptional, IFAD will revert to the normal 3 per cent in the future. It was also confirmed that IFAD will use the carry-forward only for one-off activities and not for day-to-day business. Much of the carry-forward is intended for operational catch-up, risk mitigation, facilities upgrade and medical services as well as cyber-security improvements.

17. Regarding travel costs, Management stated that it is expected that travel costs will decrease in 2021 and remain lower. This was due in part to IFAD's intention to achieve a better carbon footprint but also to increased decentralization, which reduces the need for intercontinental travel. However, in 2021 the reduction of travel costs will not suffice to offset the costs of decentralization.
18. Management further explained that operations are the core of IFAD's mandate and that there is a strong focus on adequate funding for programme-oriented departments such as PMD. However, within a zero-real-growth budget it is also important to provide funding to other priority areas such as Legal, Risk Management, Audit or the Finance Framework for sovereign borrowing, which indirectly also support IFAD's programme activities. Being IFAD's biggest department and having a high travel component, PMD was disproportionately impacted by the 27.5 per cent reduction in the travel budget. Should IFAD's budget begin to grow again in the next few years, a large part of the increase will go to PMD.
19. As far as budgetary discipline is concerned, Management emphasized that IFAD cannot be compared to other United Nations organizations since, unlike those others, it is going through a major transformational phase as a development finance institution. It is evident that additional resources are required for that purpose.
20. Regarding the separation programme, Management explained that this is intended to address underperformance, not to reduce posts. It is therefore expected that the measure will improve staff performance and hence will ultimately also be good for business continuity.
21. Despite the challenge of COVID-19, Management reiterated that the PoLG target of US\$3.5 billion can still be reached.
22. It was acknowledged by Management that the return to historical levels is not sufficient to justify the increased capital budget in 2021 and that the main driver is the need to improve IFAD's IT infrastructure. Once this is accomplished, capital budget levels will go down again. The final proposal for capital budget in the budget document is at the lower end of the range provided in the high-level review.
23. Management reassured the Committee that work is already in progress on how to improve IFAD's reporting on efficiency. The overall aim will of course still be to improve the return on every administrative dollar spent.
24. It was acknowledged that consultants should only be used in areas of low confidentiality and where certain skills are currently missing.
25. The Interim Officer-in-Charge, IOE explained that the utilization of the 2020 administrative budget reflects the global COVID-19 crisis and the cancellation of missions and workshops abroad. Regarding the budgeted amount for the recruitment of the new Director, IOE, he explained that this budget is lower in nominal terms than in the previous recruitment (2013–2014) and that it needed to take into account travel costs and other contingencies (in 2013-2014 the vacancy had to be announced twice). The utilization of this budget may also reflect the fact that candidates did not travel.
26. Following the discussions, IFAD's 2021 results-based programme of work and regular and capital budgets, along with the IOE results-based work programme and budget for 2021 and indicative plan for 2022-2023, were deemed reviewed. It was agreed that the document would be submitted to the Executive Board at its 131st session in December 2020, together with additional documentation on the detailed areas for investment from the 10 per cent carry-forward.