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## **Update on Usage of the 2020 Carry-forward Funds**

### **Addendum**

### **Management's Response to Member States' Comments**

Executive Board — 132<sup>nd</sup> Session  
Rome, 19-21 April 2021

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For: **Information**

Comments from India	Management response
<p>IFAD may provide timeline for spending of portion of carry forward funds, earmarked for Decentralization 2.0.</p>	<p>Decentralization 2.0 is the primary process for which the strategic reserve in the 2020 carry forward exists. At this point in time, IFAD is starting the roll-out of the Decentralization 2.0 process. The roll-out enables Management to better estimate one-off and recurrent costs. Our target is to have at least four regional offices up and running, increase the number of country offices, and have 45 per cent of our staff based in the field by the end of 2023. We are taking a phased approach, starting with establishing two regional offices (for West and Central Africa and East and Southern Africa) in 2021. We are acutely aware of the costs of decentralization. Affordability – especially in terms of recurrent costs – will be a key determinant in our decision-making. An iterative planning process in the coming months will help provide a more concrete picture, hence allowing for an update at the September session of the Executive Board.</p>

Comments from France	Management response
<p>We thank IFAD's Management for this detailed document on the use of carry-forward funds, as requested by the Member states at the 131st session of the Executive Board. We would like to recall that this carry-forward should not cover nor generate any recurrent expenditure.</p> <p>In this regard, we would like to understand how the expenses related to the establishment of new IFAD Country Offices can be considered as one-off, given that this will probably generate recurrent expenses for the management of these country offices which will need to be integrated into 2022 budget. We invite IFAD's management to provide clarification on this point.</p>	<p>A further increase of decentralization is mentioned in IFAD's 2021 results-based programme of work and budget document as one of the main cost drivers for the year 2021 (see paras. 5, 60 and 98). The one-time nature of activities is embedded in IFAD's internal procedures (PB/2012/06) as one of the eligibility criteria for funding from carry-forward resources.</p> <p>This principle is reiterated in paragraph 11(b) in the Update on Usage of the 2020 Carry-forward Funds paper. As such it was evidently one of the applied apportionment principles for the carry-forward funds, that the activities to be funded are one-off in nature with minimal or no future recurrent costs. The establishment of IFAD Country Offices is explicitly mentioned as one of the eligible areas for funding under paragraph 9.</p> <p>We would therefore like to reconfirm that carry-forward funds should indeed not be used to cover regular or recurrent expenditures such as salaries or rent for offices. However, they can be used for the one-time setting up of new country offices (e.g. purchase of ICT and security equipment, installation of air-conditioning, carpentry, furniture and branding).</p> <p>Overall at the strategic budget level, Management has transparently reiterated at several Board sessions that following an entire replenishment period with consecutive zero real growth budgets and in the context of a growing portfolio under IFAD management, the expected trajectory for budget over the next few years likely includes real increases. IFAD Management is committed to containing this to the extent possible, with the goal of meeting agreed efficiency targets.</p>

Comments from Canada	Management response
<p>We thank the IFAD team for the update on the carry forward funds and appreciate the transparency. We would appreciate to have more detail of the intended activities under IFAD's plan for the "one-time expertise for the establishment of new partnerships around innovative finance solutions and private sector engagement." This is found under "Corporate Engagement and Supplementary Support Services".</p> <p>As noted also in the List A statement made in the previous EB, has IFAD given consideration to "whether and how a revision of budget rules is warranted, including with reference to an accountable and effective budget mechanism to take into account the emergence of unforeseen expenditure over the course of a budget year?"</p>	<p>The consultancy planned for the "one-time expertise for the establishment of new partnerships around innovative finance solutions and private sector engagement" is for strengthening IFAD capacity to build funding partnerships in support of the Private Sector Financing Programme via the Private Sector Trust Fund (PSTF) with donors, foundations and impact investors. The recruited consultant will, among other things, provide support in deepening and broadening IFAD's partnership on private sector investments with the European Commission. The consultant will also support the technical work required to finalize the design of a returnable contribution modality for the PSTF. This modality is needed so that IFAD can start mobilizing funding for the PSTF from non-grant sources such as impact investors and investment arms of foundations".</p> <p>With the modification of the internal management of both the carry forward and the former midyear review processes, IFAD is gradually implementing changes that help ensure an effective and efficient budget process in particular with regard to unforeseen developments. The main objective of these modified internal procedures for budget management is to reduce administrative burden to the extent possible while maintaining the necessary degree of flexibility. In June 2021, IFAD expects to engage the Board, likely through an informal seminar or similar, on further ideas for discussing the benefits of a revision of budget rules. The discussion will indeed include how budget procedures can best handle inevitable unforeseen expenditures.</p>

Comments from Germany	Management response
<ul style="list-style-type: none"> <li>• Like others we realized the record Carry-overs should not exceed 3 percent of the approved annual budget of the previous year; we consider the <b>carry over of 2020 as exceptional and we appreciate full transparency</b> on the planned usage of this additional funds.</li> <li>• We appreciate the focused action on <b>Cyber crime prevention</b>, as institutions are becoming more vulnerable while increasing smart working, virtual meetings and missions. We are curious to know if specific updates/ a dedicated presentation are foreseen.</li> <li>• We appreciate the idea of priority areas. Curious to understand how the <b>new IFAD office in Tokyo</b> fits in. Please elaborate on the strategic targets and the cost covered by the carry over and the expected annual costs to be covered by regular budget.</li> </ul>	<p>IFAD Management reconfirms its commitment to providing updates on the use of carry-forward funds on an ongoing basis, with the next planned update scheduled for September.</p> <p>With regard to the activities against cybercrime prevention, IFAD has planned to use the allocated budget to continue and augment its proactive approach in resiliency to protect IFAD data and information by implementing effective and fit-for purpose controls. In particular, in the context of work from home and increased reliance on cloud services, the allocation will be used to ensure the security of an increasing number of mobile IFAD devices and to augment IFAD cloud security architecture, and validate and secure operations capabilities through specialized external expertise. No specific updates on these ongoing activities are planned for the Board, but Senior Management remains informed on an ongoing basis not only of updates but also of the cyber threat situation.</p> <p>In March 2020, IFAD approved the establishment of a liaison office in Japan in order to strengthen partnership with the Member State and its institutions. The office will also serve to strengthen IFAD's outreach to other neighbouring countries such as Republic of Korea, New Zealand and Australia. The location is offered by the Japanese Government while funds had been earmarked under the 2020 capital budget for setting up and installation. Once details were defined, it was also agreed to internalize some of the costs in the 2021 regular budget with the understanding that the carry-forward strategic reserve could be used in the case of a shortfall. At</p>

	<p>the next update on the use of the carry forward in September, IFAD will be able to provide a more concrete picture on the use of those funds for the new liaison office. We foresee a regular administrative annual cost of US\$15,000/US\$20,000 for local premises services. IFAD is currently waiting for the Japanese counterpart to provide a more detailed cost estimate.</p>
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<b>Comments from Sweden</b>	<b>Management response</b>
<p>We thank IFAD for this thorough update on the usage of carry-forward funds from 2020, as decided at the 131st session of the Executive Board.</p> <p>Similarly to France, we would appreciate if IFAD Management could elaborate on how the establishment of new ICOs and a Liaison Office can be considered as "one-time expenditures with no or minimal future recurrent costs", since such investments ought to generate expenses that need to be included in the regular budget after 2021.</p> <p>Bearing in mind the ambiguous circumstances due to COVID-19, we would furthermore appreciate a tentative timeline for the usage of the funds under the priority areas; Decentralization 2.0 and Strategic Reserve. We would also like to better understand what happens to the planned investments and resources should they not be possible to dispense during 2021.</p>	<p>As mentioned in our response to France, the costs related to setting up of new ICOs that are funded from the carry forward are purely related to the one-time setting up of the offices. Evidently, there will be recurring costs in the future for rent and common services but those will of course be covered by future regular budgets.</p> <p>The complexities and required substantial effort related to the implementation of the multi-year Decentralization 2.0 implementation plan was discussed at the Audit Committee meeting in April. IFAD will put a strong emphasis on completing most of the activities that require funding from the carry forward during the course of 2021. Generally, unused carry-forward budget resources are returned to the overall pool of available IFAD resources.</p>