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Investing in rural people

## **High-level Preview of IFAD's 2022 Results-based Programme of Work and Regular and Capital Budgets, and the Preview of the Independent Office of Evaluation of IFAD's Results-based Work Programme and Budget for 2022 and Indicative Plan for 2023– 2024**

### **Addendum**

Executive Board — 133<sup>rd</sup> Session  
Rome, 13-16 September 2021

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**For: Review**

# **High-level Preview of IFAD's 2022 Results-based Programme of Work and Regular and Capital Budgets, and the Preview of the Independent Office of Evaluation of IFAD's Results-based Work Programme and Budget for 2022 and Indicative Plan for 2023– 2024**

## **Addendum**

The attention of the Executive Board is drawn to the following addenda, to be considered as Annex I to the High-level Preview of IFAD's 2022 Results-based Programme of Work and Regular and Capital Budgets, and the Preview of the Independent Office of Evaluation of IFAD's Results-based Work Programme and Budget for 2022 and Indicative Plan for 2023–2024 (EB 2021/133/R.3), as contained therein.

## Annex I - Decentralization 2.0

Decentralization 2.0 (D2.0) is at the centre of IFAD12's business model, aiming at transforming the way IFAD operates, by expanding and deepening its country presence to more effectively and efficiently steer inclusive and sustainable rural transformation. D2.0 will allow IFAD to reduce HQ costs and increase value-for-money from having more capable and integrated teams in the field, closer to governments, partners and the communities it serves. The reallocation of administrative positions to the field from PMD and SKD will, from 2023, save close to US\$1.7 million annually. Further savings will be realized by structuring pooled GS support for other divisions and departments in the Regional Offices (ROs). Another way of reducing costs in ROs is to negotiate with the hosting government to provide rent-free accommodation – this has already been agreed for WCA and ESA and we are in advanced discussions on other ROs but also some in country offices. Designing a leaner yet fit-for-purpose and stronger HQ as a result of decentralisation will also translate in further cost reductions. These changes will have a major impact on business processes and make IFAD even more efficient and IT-based, in line with the People, Processes and Technology Plan (PPTP).

Having 45% of staff in the field is only the final reflection of what the reform is trying to deliver, including:

- Four fully fledged **ROs** to allow IFAD to forge partnerships and visibly lead rural policymaking; to scale up the new and innovative components of the Fund's business model; and to assemble development finance in the region. The cross-functional staff base present in Regional Offices aims to generate a critical mass able to capitalize on the value of co-location.
- A **new ICO map with 50 ICOs** (10 new and 13 upgrades), increasing the amount of our portfolio covered by in-country ICOs from 72% to 84%, and the share of CD-led offices from 55% to 74% (17 more CD-led offices compared with OpEx). Consistent with IFAD12 focus, more than half of the ICOs being opened or upgraded are in countries with fragile and conflict-affected situations, and all of them are LIC or LMIC.
- **Increasing the share of National Officers (NOs)** in the field to ensure strong understanding of local contexts, evolving challenges, and region-specific public management systems, policy spaces and fora. Achieving results that matter requires significant country ownership of IFAD investments and getting the right mix of international and national professionals is critical for balancing corporate objectives with country needs while ensuring an evidence-based approach.

**Table 1** outlines the resources required to reach these milestones through D2.0. Current estimates for one-time and recurrent costs (net of savings) amount to US\$13 and US\$7 million, respectively. Strong monitoring for unit costs has already started and will continue during IFAD12 to learn and adapt accordingly. Note that 2021 has been focused on finalizing the design of D2.0, and therefore, budget execution is still very low (estimates for 2021 are heavily dependent on expenditures associated with ICOs and ROs in WCA and ESA), with the majority of resources expected to be utilized during 2022-2024. Key decisions have nevertheless already been made, including RO locations in Africa, new staffing models for PMD, SKD and FMD, P staff relocation and GS transition plans, as well as a selected number of ICO locations for 2021/22. The immediate priority which has already started is the relocation of PMD regional teams to ROs in WCA and ESA by the end of the year, while decisions on APR and LAC RO locations, and a full D2.0 ICO map, among others, will be finalised before the end of 2021.

**Table 1. One-time and incremental recurrent costs (build up of yearly marginal increases), by year and key items***Millions of United States dollars*

	<b>Total</b>	<u>Expected phasing</u>		
		2021	2022	2023/24
<b>One-time costs</b>				
Regional offices set up (includes interim arrangements) <sup>1</sup>	3.54	0.46	2.09	0.99
Upgrading and establishment of ICOs <sup>2</sup>	4.36	0.13	2.25	1.98
Staff relocation <sup>3</sup>	3.20	0.55	1.20	1.45
Security <sup>4</sup>	0.47	0	0.06	0.41
Consultancy support <sup>5</sup>	1.00	0.26	0.37	0.37
<b>Total one-time costs</b>	<b>12.56</b>	<b>1.40</b>	<b>5.97</b>	<b>5.20</b>
<b>Incremental recurrent costs</b>				
Regional offices running costs	3.57	0.07	2.82	0.68
ICO running costs (staff and facilities)	3.53	0.17	1.92	1.44
Staffing costs (net savings) <sup>6</sup>	-1.68	0.31	0.40	-2.39
UN costs and other <sup>7</sup>	1.11	0	0.50	0.60
<b>Total recurring costs</b>	<b>6.52</b>	<b>0.55</b>	<b>5.65</b>	<b>0.33</b>

More than half of one-time costs and almost all recurrent costs are driven by the setting up of regional office facilities and ICOs. These are being reduced through ongoing negotiations with host country governments for rent-free accommodation (for both ROs and ICOs), as well as co-financing office set-up works. To better understand these cost levers for D2.0, it is therefore important to further detail ICO costs.

<sup>1</sup> Interim premises will be used to accommodate staff during RO works. From a budget perspective, one-time costs associated with the Regional Office set-up, together with ICOs establishment and upgrade, represent the D2.0 capital budget expenditure. A significant portion of the CF Strategic Reserve has been earmarked for D2.0 one-time costs.

<sup>2</sup> 3 new CD-led offices, 7 new CPO-led offices and 13 upgraded from CPO to CD-led offices.

<sup>3</sup> Out-postings expenditure was estimated using United Nations average cost of US\$50,000. Staff to be relocated refers to PMD regional teams and non-PMD international staff (ex. SKD, FMD, CSD, ERG).

<sup>4</sup> Purchase of recommended bundle of security items for conflict-afflicted countries, including an armoured vehicle, ballistic helmets, basic body armour, an emergency trauma bag, GPS devices for vehicle tracking, individual first aid kits, satellite phones and UN radios.

<sup>5</sup> These include 1 D2.0 project manager and 1 project consultant, as well as 1 HRD and 1 FSU decentralization consultant.

<sup>6</sup> Includes cost differential of higher average Professional staff compensation on the field vs HQ, and cost of CSD Operations Managers for ROs. Savings stem from employing more NOs instead of Professionals, and from abolishing certain GS staff positions in HQ and replacing them in the field. As an example of the latter, the standard cost of a fixed term G-5 staff in HQ is US \$93,000 while on the field it's US \$33,000, a 65% cost reduction.

<sup>7</sup> Includes Resident Coordinator and higher UNDSS charges for increased field staff presence, as well as higher compensation for Country Directors based in conflict-afflicted countries. Having a staff presence in CAS requires additional resources to cover the UN-standard and IFAD-specific incentives applicable to isolated, non-family or hardship duty stations. Incremental costs include the following items: danger pay, hardship allowance, mobility incentives, non-family service allowances and the net average post-adjustment compared with what staff would have received in the RO.

**Table 2** describes the facility and staffing unit costs for opening (CD-led or CPO-led) or upgrading an ICO. While new CD-led offices have clearly the highest unit costs, upgrading CD-led offices represents the highest share of ICO costs in absolute terms, given the high number of offices being upgraded (13 in total, making up 55% of one-time costs, and 42% of recurrent costs).

**Table 2. ICOs facility and staffing average unit costs, by type of office**

*Thousands of United States dollars*

	<i>New CD-led</i>	<i>New CPO-led</i>	<i>Upgraded CD-led</i>
<b>Facility costs</b>			
One-time costs <sup>8</sup>	220	220	166
Recurrent costs <sup>9</sup>	219	81	98
<b>Staff costs</b>			
One-time costs	50	0	46
Recurrent costs	93	91	30

**Table 3** further breaks down costs of opening a CD-led office by expense category and type of country in terms of conflict status. The main cost driver significantly increasing expenditures for countries in high-intensity conflict-afflicted situations (CAS) is the need for an armoured vehicle (US \$120.000), in line with the EB's ambition to do more and have more impact in fragile states.

**Table 3. ICOs average unit set-up costs, by facility expense category and conflict situation**

*Thousands of United States dollars*

	<i>Non-CAS ICO (UN premise<sup>10</sup>)</i>	<i>Medium- intensity conflict (UN premise)</i>	<i>High-intensity conflict (UN premise)</i>
Furniture / fittings / accessories	35	44	44
ICT works	20	22	22
Security works	25	53	173
Other works	30	30	30
<b>Total</b>	<b>110</b>	<b>152</b>	<b>282</b>

<sup>8</sup> One-time costs for facilities include office set-up (ex. ICT, security, furniture, among others) while for staff costs are related to relocation.

<sup>9</sup> Incremental recurrent costs for facilities include office rent, ICT running costs, UNDSS costs, among others. Staff expenses include costs of hiring national staff (GS and NOs), with variations in average costs between office types. These stem from different grades and number of staff members per type of office, according to defined metrics.

<sup>10</sup> Note that costs in this table are presented solely on the basis of ICO establishment on UN / IFI premises, for comparison purposes across CAS and non-CAS countries. However, D2.0 budget estimates for office set-up have also been based on the assumption of stand-alone premises for some ICOs (resulting in higher average costs in Table 2).

A deep dive on the facility cost driver in terms of regional distribution, shown in **Table 4**, clearly points to a concentration of resources in sub-Saharan Africa. IFAD12's ambition is not only to devote more resources to fragile and conflict-affected situations, but also to have an African focus, considering the higher concentration of the latter in lower income countries. Engaging in the ESA and WCA regions represents hence strategic opportunities and challenges, which are matched with more costs and investments. Moreover, this entails value-for-money given the higher unit facility costs of ICOs in LAC (especially) and also APR, compared to WCA and ESA, where instead about 70% of offices are planned to be upgraded or established.

**Table 4. Facility costs of ROs and ICOs by region**

*Millions of United States dollars*

	<i>APR</i>	<i>ESA</i>	<i>LAC</i>	<i>NEN</i>	<i>WCA</i>
<b>Facility costs</b>					
One-time costs	1.45	1.98	0.83	0.44	2.52
Recurrent costs	1.69	2.34	1.05	0.31	1.97

Given the field-focus of the D2.0 initiative, it is clear that the greatest departmental needs will emerge from programmatic staff (i.e., PMD). However, as decision-making moves to regional and country offices, D2.0 needs to involve all divisions whose roles are needed in the field, facilitating smooth planning, coordination and successful collaboration as action moves away from HQ. **Table 5** provides a preliminary snapshot of D2.0 relocation costs by department, but we also fully expect significant savings that can be recycled as more HQ divisions relocate to country level.

**Table 5. Relocation costs (HQ and field-to-field) by department**

*Millions of United States dollars*

	<b>Total</b>	<i>2021</i>	<i>2022</i>	<i>2023/24</i>
<b>Relocation costs</b>				
PMD	1.70	0.55	0.65	0.50
FOD	0.15	0	0.05	0.10
SKD	1.00	0	0.35	0.65
CSD	0.20	0	0.10	0.10
ERG	0.15	0	0.05	0.10