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Investing in rural people

Report of the Audit Committee on IFAD's 2022 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 2022 and Indicative Plan for 2023-2024

Note to Executive Board representatives

Focal points:

Technical questions:

Saheed Adegbite

Director
Office of Strategic Budgeting
Tel.: +39 06 5459 2957
e-mail: s.adegbite@ifad.org

Christian Hackel

Senior Budget Specialist
Tel.: +39 06 5459 2985
e-mail: c.hackel@ifad.org

Indran Naidoo

Director
Independent Office of Evaluation of IFAD
Tel.: +39 06 5459 2274
e-mail: i.naidoo@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra

Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

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Report of the Audit Committee on IFAD's 2022 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 2022, and Indicative Plan for 2023–2024

1. Management introduced this agenda item, noting that the final 2022 budget proposal had been prepared following an extensive internal process, taking into consideration the feedback received from the Audit Committee and Executive Board on the high-level preview in September. Management further highlighted the fact that COVID-19 continues to pose challenges to IFAD in 2021. Some activities had not yet fully resumed, which had led to an exceptional proposal for a carry-forward of up to 5 per cent. It was also mentioned that IFAD is presenting a budget with a real growth of 4.75 per cent, following a period of zero-real-growth budgets for three consecutive years, a necessary step to deliver more results and fulfil the Twelfth Replenishment of IFAD's Resources (IFAD12) commitments.
2. The key corporate priority for 2022 was also outlined. Management highlighted that the 2022 budget focuses on decentralization as a top priority, together with "rightsizing" – building staff capacity in a holistic manner – as recommended by a 2019 human resources study. With these efforts, IFAD is enhancing the delivery of transformational results and ensuring that it possesses the right capacities to deliver the services, products and expertise required by Member States.
3. Real cost increases, attributable in particular to Decentralization 2.0 and additional staffing requirements, have been largely offset by a 12.4 per cent decrease in consultancy costs and an 8.9 per cent reduction in the travel cost category, following a very rigorous review of departmental requests. For 2022 the exchange rate used for the final budget proposal is EUR 0.835:US\$1 (compared to the rate of EUR 0.885:US\$1 used in the high-level preview and 2021 budget). The 2022 net regular budget is proposed at US\$169.4 million, representing a 6.25 per cent nominal increase vis-à-vis the 2021 budget of US\$159.4 million (aligned with the high-level preview).
4. The proposed capital budget for 2022 was indicated as US\$6.5 million, covering cyclical and business continuity capital expenditures that have an economic life of more than one year, as well as investments related to the corporate priority of decentralization and other key investment projects. Although elevated by historical standards, the proposal is lower than the last approved budget and within the range indicated in the high-level preview.
5. The Director, Independent Office of Evaluation of IFAD (IOE), presented the IOE results-based work programme and budget, focusing on the activities planned for 2022, which were revised following the preview. In 2022, IOE will undertake: (i) a subregional evaluation on rural finance projects in East and Southern Africa; (ii) a new corporate-level evaluation of knowledge management; (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 targeting; (vi) five project performance evaluations; (vii) validations of all project completion reports; and (viii) the annual report of the independent evaluation function.
6. IOE will also complete a thematic evaluation on the topic of gender equality.
7. In 2022, IOE will increase its engagement in evaluation capacity development, both within IFAD in collaboration with Management and externally by cooperating with the global evaluation initiative to build national evaluation capacities in Member States.

8. The proposed 2022 IOE budget amounts to US\$5.84 million. This represents a US\$30,000 increase in absolute terms over the approved budget of US\$5.81 million in 2021. According to the programme of loans and grants (PoLG) figures available in September 2021, the proposed 2022 IOE budget was below the IOE budget cap of 0.9 per cent of IFAD's expected PoLG, which is adopted by the Executive Board.
9. During its deliberations on IFAD's proposed programme of work and budget, the Committee welcomed the high-quality improvements and additional detail in the 2022 budget document following the earlier preview and took note of this year's proposal for a higher carry-forward than the maximum 3 per cent foreseen, emphasizing the need to return to 3 per cent if the Executive Board approved the proposal.
10. The Committee voiced its concern about the sizeable increase in the budget proposal as compared to other international financial institutions (IFIs) and at a time when many Member States are operating with the assumption of decreases in their own budgets. It asked about efficiency gains through Rome-based agency collaboration and United Nations development system reform, and noted that IFAD was proposing an inflation adjustment which was not common in the budgets of peers.
11. The Committee also noted that the implementation of Decentralization 2.0 seemed to be progressing slowly and expressed the expectation that the process would gradually move forward. However, it was observed that the costs foreseen, mostly concentrated in 2022, were significant and would impact future budget requests as well as the size and nature of the organization. In this regard, it was further noted that learning about costs that had been incurred in the past and a strategic document on Decentralization 2.0 that could be discussed with the Board would allow for a better assessment of the costs going forward. With regard to staffing, fairly significant increases in the number of staff had already been noted since 2019. The question now was where IFAD's workforce would be at the end of 2024, taking into account IFAD's scale and the results than can realistically be expected.
12. The Committee noted that only one option was given and that the call by some members to lower the budget had not yet been addressed in the document. It encouraged IFAD to engage in a prioritization exercise to identify areas where it could do less and where it could do more. Within the latter, it was highlighted that the emphasis on the important areas of climate change mitigation and programme management did not clearly come across in the document. The Committee enquired about the increases seen in the Strategy and Knowledge Department (SKD), and about the consistency of the budget increase given that the PoLG seemed to follow a flatter trajectory during IFAD12. It also enquired about how Management would address areas highlighted in audits that continue to be a challenge (e.g. procurement).
13. Finally, the Committee indicated the need to see the results and efficiency gains from the various reforms that had already been implemented and those still ongoing.
14. Management reassured the Committee that in the context of the proposed carry-forward, the 5 per cent level was exceptional and that IFAD expected to revert to the normal carry-forward of 3 per cent in 2023. It was also confirmed that IFAD would use the carry-forward for one-off activities only and not for day-to-day business, and that it provided much-needed flexibility. In addition, Management emphasized that similar instruments were used by other IFIs and multilateral development banks, as well as national administrations.
15. Management further explained that as operations are at the core of IFAD's mandate, there was a strong focus on adequate funding for programme-oriented departments such as the Programme Management Department and SKD, hence the

need to focus on accommodating all costs related to impact assessments and climate change mitigation, as well as investing in South-South and Triangular Cooperation.

16. As far as the budget growth is concerned, Management emphasized that IFAD cannot sustainably deliver on IFAD12 commitments and double its impact by 2030 if it continues to operate with zero-real-growth budgets. IFAD is undergoing a major transformation as a development finance institution and it had always been evident that additional resources would be required to that end. Furthermore, Management underscored that decentralization and dynamic workforce planning were the main cost drivers of the 2022 budget proposal.
17. Regarding the Decentralization 2.0 initiative, Management explained that progress had been partial so far, and that some decisions had had to be postponed as a result of lengthy negotiations with potential host governments to accommodate IFAD regional offices with rent-free premises, when possible. It was also noted that Management would present a separate paper on the subject at the December session of the Executive Board.
18. Management clarified that efficiencies derived from institutional reforms were already evident in administrative procedures, systems and tools. Moreover, a large number of reforms were still ongoing, and some would take time to mature and yield benefits. The Enhanced Efficiency and Resource Management (Smart Budget Allocation) initiative addressed this point and had been tabled as a separate agenda item at the present meeting of the Committee.
19. Similarly to Decentralization 2.0, Management noted that an Enhanced Efficiency and Resource Management (Smart Budget Allocation) paper, as well as a paper on the People, Processes and Technology Plan will be presented to the December Board session, providing detailed updates on both initiatives.
20. Following the discussions, the 2022 results-based programme of work and regular and capital budgets, along with the IOE results-based work programme and budget for 2022 and indicative plan for 2023-2024, were deemed reviewed. It was agreed that the document would be submitted to the Executive Board at its December session.