Evaluation Committee
120th Session
Rome, 4 April 2023

Response of IFAD Management to the corporate-level evaluation of IFAD's decentralization experience 2022

Document: EC 2023/120/W.P.3/Add.1

Agenda: 4

Date: 7 March 2023

Distribution: Public

Original: English

FOR: REVIEW

Useful references: Information note - Operational Excellence For Results (OpEx) exercise (EB 2018/124/R.2); High-level preview of IFAD's 2022 results-based programme of work and regular and capital budgets – addendum (EB 2021/133/R.3/Add.1); Update on IFAD's Decentralization 2.0 (EB 2021/134/R.5); Medium-term budget outlook 2023-2025 (annex and appendix IX) (EB 2022/135/R.4/Rev.1); IFAD's 2023 results-based programme of work, regular and capital budgets, and budget outlook for 2024–2025 (EB 2022/137/R.3).

Action: The Evaluation Committee is invited to review the response of IFAD Management to the corporate-level evaluation of IFAD's decentralization experience 2022.

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Executive Board
138th Session
Rome, 10-12 May 2023

Response of IFAD Management to the corporate-level evaluation of IFAD's decentralization experience 2022

Document: EB 2023/138/R.5/Add.1

Agenda: 5(a)

Date: x

Distribution: Public

Original: English

FOR: REVIEW

Useful references: Information note - Operational Excellence For Results (OpEx) exercise (EB 2018/124/R.2); High-level preview of IFAD's 2022 results-based programme of work and regular and capital budgets – addendum (EB 2021/133/R.3/Add.1); Update on IFAD's Decentralization 2.0 (EB 2021/134/R.5); Medium-term budget outlook 2023-2025 – annex and appendix IX (EB 2022/135/R.4/Rev.1); IFAD's 2023 results-based programme of work, regular and capital budgets, and budget outlook for 2024–2025 (EB 2022/137/R.3).

Action: The Executive Board is invited to review the response of IFAD Management to the corporate-level evaluation of IFAD's decentralization experience 2022.

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I. Introduction

1. Management welcomes the corporate-level evaluation (CLE) of IFAD's decentralization experience (2022), and thanks the Independent Office of Evaluation of IFAD (IOE) for a comprehensive review.

2. While noting room for improvement, the CLE acknowledges that IFAD has successfully shifted from a country presence model to a decentralized model in a relatively short timeframe. This followed Management's recalibrated approach to decentralization in 2017, which built on the 2016 CLE on decentralization, and was supported by the Executive Board. Since then, Management has placed emphasis on adaptive management to improve decentralization through: (i) the Operational Excellence for Results (OpEx) reform in 2017-2018; (ii) the 2018-2019 lessons learned exercise; (iii) the establishment of a cross-departmental working group in 2019; and (iv) the evolution to Decentralization 2.0 (D2.0) in January 2021. IOE's findings are valuable inputs in this adaptive management process.

3. Based on its own learning, Management concurs with the CLE findings that effective decentralization planning and delivery depend on many factors including: (i) ensuring timely allocation of adequate resources; (ii) putting proper processes in place for IFAD Country Office (ICO) set-up; and (iii) ensuring focus on staff well-being and adequate communication following reassignment decisions. Additional to the CLE findings, Management also notes that the COVID-19 pandemic greatly constrained the implementation of decentralization and impacted staff well-being.

4. During the review phase of the first draft report, Management expressed some concerns about how evidence and analysis supported the conclusions drawn. Although the final report partially addresses this issue, Management still has a different position on some of the evidence and data presented and their link to the conclusions.

5. Management welcomes the five recommendations under its purview, and finds them reasonable. Section II provides detailed responses to the recommendations. Building on Management's lessons and taking into account the CLE report, Management is formulating a D2.0 Recalibration Plan, which fine-tunes D2.0 implementation while keeping its timeline and overall target unchanged. As part of this, Management is already implementing better onboarding, a new timeline for reassignment that will be rolled out on a yearly basis, and dedicated administrative pool functions in regional offices (ROs) led by corporate services managers. The plan also includes a review of the Asia and the Pacific (APR) and Latin America and the Caribbean (LAC) ROs, and further recalibration of the different office structures and staffing arrangements.

II. Recommendations and Management response

6. **Recommendation 1: agreed.** In line with its adaptive management approach, Management is constantly adjusting D2.0 and agrees to incorporate the analysis of the effectiveness of the various ICO models to understand benefits and shortcomings. However, this will be done as a continuous process as opposed to pausing D2.0. By learning from the CLE and its own experiences to date, Management is adjusting D2.0 implementation and fine-tuning the office structures as per the recalibration plan. Following review of the APR and LAC ROs, Management will further refine, as appropriate, the multi-country office (MCO) model by reviewing the latter's effectiveness in the West and Central Africa (WCA) and East and Southern Africa (ESA) regions, and further recalibrate the APR MCOs vis-à-vis ICOs led by a country director (CD) (e.g. China, India and Viet Nam).

Management confirms that the current allocation metrics already factor in national commitment to rural development as prescribed in the last section of the recommendation.

7. **Recommendation 2: partially agreed.** Management agrees with the sub-recommendation that there is a need to improve granularity in reporting on the costs of decentralization. However, it partially agrees with the overall recommendation on developing a new budget/accounting system, since there are costs associated with procuring and rolling out such a system, and there is already a system in place that can be built upon.

8. Following the 2016 CLE, IFAD improved the budget and accounting system and delegated budget holder authority and low value procurement to CDs in the field with monitoring reports available for each accountable budget holder. However, Management agrees that further enhancements to the budget and accounting system will be required to support a more holistic corporate overview of the staff and non-staff costs of decentralization, and of the cost of design and supervision, where authority has been delegated to an ICO. To support decision-making on decentralization, the D2.0 budget actuals (vis-à-vis the budget envelope) are **already** tracked regularly in the D2.0 steering committee meetings. Not only does current practice ensure adequate budget utilization to implement the D2.0 plan during the year, but it guarantees accountability for any budget increases endorsed by the Executive Board for expenditures related to decentralization.

9. Management **partially** agrees with the recommendation to integrate projections of future costs of field presence into budget documents. Management has reported the costs of decentralization, as requested by the Board, and is committed to continuing to do so at a strategic level. For example, the information note on the Operational Excellence for Results (OpEx) exercise, shared with the Board in September 2018, provided comprehensive information on decentralization costs. Furthermore, D2.0 updates presented at the September and December Board sessions in 2021 included metrics, lessons learned, and information on regional office models, costs and phasing. Lastly, the medium-term outlook budget paper submitted to the Board in April 2022 (appendix IX) presented costs at a granular level, including incremental costs of additional positions and ICOs. To further enhance reporting to the Board, Management proposes to submit an annual progress report in December, with oral updates as needed.

10. Management also partially agrees with the need to report separately on and monitor the total costs of field presence in annual budget documents. As per IOE's comparative study report, none of the consulted organizations assess the cost of decentralization, although they agree that it is not cost-neutral.

11. **Recommendation 3: agreed**. Management agrees on the need to restore the share of administrative budget allocated to country programme design, implementation and non-lending activities to at least in the mid-range of the other international financial institutions. In fact, the share of IFAD budget allocated to country programme delivery in 2023 is on the rise, as acknowledged in the CLE. Management will strive to ensure that this trend continues going forward.

12. Country programme design and delivery continue to represent the core business of IFAD while the direct trade-off with decentralization is less clear. Management has already started to assess and prioritize funds needed to design and supervise IFAD's projects, particularly given the extra analysis needed for the Social, Environmental and Climate Assessment Procedures (SECAP) and knowledge-based policy advice, for example. It is worth noting that the IFAD 2023 budget, which has been endorsed by the Board, prioritizes country programmes, with an increase of US$3.49 million allocated to project design/supervision/implementation support. However, the unit costs for design and supervision have increased significantly due to additional requirements associated with SECAP; fragility; mainstreaming climate,

nutrition, gender and social inclusion; knowledge and policy; procurement; and financial management. This budget increase will help better integrate these elements into project design and proactively manage portfolios, with a focus on monitoring and evaluation, and fiduciary issues, and on projects classified by SECAP as having high or substantial risk.

13. Management also agrees on the need for increased support to non-lending activities (NLAs). NLAs will continue to be integrated into the design and implementation of country strategic opportunities programmes (COSOPs) and projects to facilitate knowledge generation and sharing, promote innovations and strengthen policy advice. However, better delivery of NLAs will also require commensurate budgets, which has been a challenge so far.

14. **Recommendation 4: partially agreed.** Management is in overall agreement with the importance of improving human resources (HR) management; however, it partially agrees with the sub-recommendations on the role of the Strategy and Knowledge Department (SKD) and CD capacity-building because of budget constraints. On HR management, IFAD has created regional administrative pools led by corporate services managers to support the functioning of the ROs. Furthermore, IFAD has put in place a plan for reducing the vacancy rate (i.e. appointable rosters, batch recruitments, electronic appointment boards, regular monitoring of vacant positions, and targeted recruitment approaches for specialized job profiles). The ongoing upskilling programme will improve the capacity of all newly recruited and reassigned staff. Management is also enhancing staff onboarding mechanisms. IFAD is continuing its routine trainings through departmental/divisional retreats and Operations Academy (OPAC) training (both virtual and in-person). As such, skills development processes are already in place, and IFAD will continue to improve them. While COVID-19 significantly affected staff onboarding and induction, outcomes improved in 2022 when in-person retreats and visits resumed.

15. Management partially agrees on the sub-recommendation that SKD needs to sufficiently prioritize supporting the Programme Management Department’s efforts to strengthen NLAs in client countries and promote knowledge management globally and across IFAD. The knowledge function is undergoing change, with a greater focus on data and evidence curation, analysis for advice and diagnostics. In-country and global policy advice is a challenge, and Management will work on improving this.

16. Management also partially agrees on the sub-recommendation on equipping CDs with clarity and skills. While acknowledging room for improvement, Management has already invested significantly in this (e.g. through OPAC, the upskilling programme and departmental, subregional and regional workshops and retreats) and will continue to do so.

17. **Recommendation 5: agreed.** As per the commitment of the new President, Management confirms that numerous efforts are already under way to allocate adequate resources in a timely manner and ensure proper processes for office set-up, and for reassignment and relocation of staff. Management is revising the reassignment approach and frequency to better fit organizational needs, as has been the case since the OpEx exercise. Furthermore, as announced by the President, IFAD has formalized flexible timing of relocations moving forward, in particular to allow staff with families and school-going children to align their move with the academic school year. The Human Resources Division, in collaboration with hiring divisions, has continued to provide staff with flexibility for relocation as needed. The Field Support Unit has developed guidelines and toolkits to provide logistical support to relocated and newly appointed staff as part of the IFAD corporate onboarding initiative.

18. Management agrees on the need to implement effective communication strategies. The D2.0 communication strategy is being revised, with a strong focus on improved

dialogue with staff. This is reflected in the 2023 communication action plan, which is aimed at strengthening the approach to proactively addressing staff concerns. As per current practice, the IFAD Staff Association meets weekly with the Director, Human Resources Division, and regularly with other members of the Management team. In addition, IFAD has revised the D2.0 implementation group meeting structure to enhance its rationale and function, and expand its membership.

19. Management also agrees on the need to address staff well-being and the organizational culture. A number of initiatives have already been or are in the process of being rolled out, including an immediate action plan to reduce IFAD's vacancy rate in order to ensure the needed resources to fulfil emerging decentralized responsibilities. In addition, the workplace culture initiative builds upon a concrete and time-bound action plan, with priority areas such as role-modelling by Senior Management and emphasizing that everyone in IFAD has a role to play, while factoring in the Fund's increasingly decentralized and global presence.

20. **Recommendation 6: This recommendation is addressed to the Executive Board.** Management acknowledges that a comprehensive picture of the cost of decentralization has become clearer over time. IFAD's decentralization journey has evolved, and cost assumptions have moved from high-level estimates to more detailed and accurate forecasts based on IFAD's actual experience and evidence. Management has consistently provided the Board with the most up-to-date data available when reporting on decentralization progress, and will continue to do so going forward, including through improved metrics.

21. Management recognizes the shortcomings in the planning and sequencing of certain aspects of decentralization.

22. To further enhance reporting to the Board, Management proposes to provide an annual progress report in December, with oral updates as needed.