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Investing in rural people

Comments of the Independent Office of Evaluation of IFAD on the IFAD Corporate Decentralization Plan

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For: Review

Comments of the Independent Office of Evaluation of IFAD on the IFAD Corporate Decentralization Plan

General comments

1. The Independent Office of Evaluation of IFAD (IOE) welcomes the IFAD Corporate Decentralization Plan, to be presented to the Executive Board in December 2016. The plan builds upon the corporate-level evaluation (CLE) of IFAD's decentralization experience conducted and completed by IOE in 2016.
2. Within 13 years, IFAD shifted from virtually no country presence to establishing 40 country offices (of which 39 operational) as of mid-2016. The CLE found that the move towards decentralization was overall well justified and enhanced IFAD's contribution to rural poverty reduction.
3. The Corporate Decentralization Plan is presented as a strategic document that provides IFAD's broad direction in terms of decentralization. It addresses most of the recommendations and issues raised by the CLE, and the proposed courses of action are consistent with many of the areas for improvements and gaps identified by the CLE. Some areas will require further attention in the future and there is a clear need to formulate operational proposals and specific plans on several items. Key positive features of the plan, as well as the areas that require further attention and improvement, are identified further below.

Key positive features

4. In consistency with the CLE, the plan prioritizes strengthening and deepening country presence over expanding the number of country offices. The latter is forecast to remain at around 40 when the plan reaches its full implementation regime. This is a sound choice: the CLE showed that the opening of 10 additional offices, as foreseen in the April 2016 Board update, would have increased the coverage of the lending portfolio through country offices by only 7 per cent but would have led to a sizeable increment in country presence costs (15 per cent).
5. The CLE found that subregional hubs displayed both strategic and cost-efficiency advantages (in terms of average operating costs per country and per project) compared with other country presence models. Similarly, the plan proposes reorganizing country offices around: (i) larger subregional hubs; and (ii) country office groups (typically covering three countries), while maintaining the option of single country offices only for countries characterized by a larger portfolio, a situation of fragility or other special conditions. The above reorganization proposal responds to the need to concentrate resources and create a critical mass of staff rather than spreading resources too thinly.
6. In line with the recommendations of the CLE, the plan insists on the importance of conducting a functional analysis exercise in preparation for the reorganization of country offices and headquarters. This will be an improvement on past decisions about establishing country offices which were not always based on a thorough assessment of the needs, expected benefits and costs. In particular, it will be important for the functional exercise to set criteria for establishing subregional hubs and groups and further clarify the distinction between the two.
7. The plan affirms the need to better clarify: (i) the expectations regarding the different country presence modalities; and (ii) the different roles and responsibilities for staff within each country office. This is important as the CLE found that although all country offices were initially expected to perform the same broad set of activities, staffing and budgets differed significantly between them. In some offices, resources were too limited to engage effectively in non-lending activities such as knowledge management, partnership-building and policy dialogue. Similarly, the CLE noted that country office staff were demanding more

clarity on internal division of labour (for example between national and international staff).

8. The plan acknowledges the need for enhanced delegation of authority, with particular reference to financial commitments, based on the current pilot initiative in Viet Nam. With the envisaged shift towards establishing or strengthening subregional hubs, country office staff will need to take an increasing number of decisions with financial implications and will thus require broader authority to approve transactions.

Areas that require further attention and improvement

9. Explaining cost-estimate assumptions. While the goal of deepening and strengthening country presence is well justified, one of the concomitant recommendations of the CLE is that of improving cost-efficiency. According to the plan (para. 30), while savings of about US\$2.4 million are foreseen in the Tenth/Eleventh Replenishment of IFAD's Resources (IFAD10/IFAD11) periods, a net cost increment of US\$1.6 million is also forecast by the end of IFAD11, after which incremental costs are expected to stabilize. These cost increments are largely associated with increased office space and staff costs in country offices and, at this stage, the estimates are tentative.
10. Since 2016, IFAD has acknowledged that decentralization entails higher costs, which is in line with the experience of other international financial institutions. At the same time, it would have been useful to provide (e.g. in an annex) more explanation as to the drivers of costs and savings. A summary of the assumptions and scenarios used to arrive at the above figures (e.g. new staff to be recruited, staff to be outposted, cost items to be reduced) would enhance the reliability of estimates. Similarly, forecast scenarios for the size of the programme of loans and grants under IFAD10 and IFAD11 would help set the context of the plan and enable examination of its implications
11. In general, it will be of paramount importance to establish conditions that ensure cost-efficiency and to closely monitor their implementation. The plan envisages, inter alia, strengthening the capacity of hubs to provide technical, administrative and fiduciary services. This may boost their capacity to support operational performance and achieve development results. However, it may also become a factor for cost increases if it largely relies on the creation of net additional posts rather than outposting from the headquarters. The CLE found that the staffing levels of the Programme Management Department at headquarters had remained almost unchanged since 2008 in spite of the establishment of new country offices.
12. Costing of different country presence options. Related to the issue of sources of cost increments and savings, the CLE highlighted the importance of costing different options for country presence to inform decisions on country presence modalities. A costing exercise is recommended for subregional hubs, groups and individual country offices, as well as for the base case scenario of management from headquarters, as a part of the envisaged functional analysis exercise. Cost estimates would need to take into account not only the budgets for running country offices but also the imputed costs of providing support to them from headquarters (e.g. through General Service and Professional staff). The costing exercise would also need to take into account forecast scenarios for the size of the programme of loans and grants under IFAD10 and IFAD11.
13. Related to the above, and of equal importance, is the need to adjust IFAD's accounting system to allow better monitoring of actual costs incurred by country offices. This is an important area for follow-up. Up to now, for budget execution, costs have been reported at the regional division level, lumping together headquarters and country office costs. The importance of adjusting the accounting system will increase with the strengthening of country presence, as more precise cost-monitoring will be required within a zero budget growth framework.

14. Resources for non-lending activities. The plan observes (para. 26) that non-lending activities are not exclusively linked to decentralization but recognizes that country presence provides special opportunities to enhance knowledge management, partnership and policy dialogue. The CLE recommended formulating focused objectives in country strategic opportunities programmes and establishing a specific budget line for these activities. It will be important to follow-up on these items, also beyond the corporate plan.
15. Within non-lending activities, the plan singles out (para. 27) partnerships with United Nations Rome-based agencies. The CLE found that country presence led to more regular contacts and meetings with Rome-based agencies, but not necessarily the development of substantive and programmatic partnerships. It will be important for IFAD to clarify whether these partnerships remain a priority for country offices and what type of collaboration can be envisaged within a limited resource envelope.
16. Country office role in facilitating access to knowledge products and information. With the allocation of additional responsibilities to subregional hubs and groups, demand for their involvement in facilitating access to information, knowledge products and documentation is bound to increase. Two specific items were identified by the CLE – and acknowledged in the IFAD Management response – that will require attention moving forward: (i) the need to facilitate access to numerous knowledge management products prepared by country offices and IFAD-funded project teams; and (ii) the need to establish a framework for identifying requirements, staff skills, responsibilities and delegation of authority to country office staff as it pertains to facilitating access to information and communication.

Concluding remarks

17. IOE appreciates IFAD Management's efforts to follow up on the CLE recommendations. Overall the plan identifies areas for improvement that resonate well with the CLE from a strategic perspective. Detailed operational plans will have to be elaborated in the future, including a thorough functional analysis and a modelling exercise of drivers of costs and savings. IOE encourages Management to take the above comments into consideration in future work and remains available for further discussion.