
Report of the Audit Committee on IFAD's 2023 results-based programme of work, regular and capital budgets, and budget outlook for 2024–2025, and IOE's results-based work programme and budget for 2023 and indicative plan for 2024–2025, and the HIPC and PBAS progress reports

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Action: The Executive Board is invited to review the present document.

Technical questions:

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1. Management introduced this agenda item, noting that the final 2023 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, as well as comments provided during the Executive Board informal seminar held in early November.
2. Management highlighted the challenging context. Following several years of reforms and a growing and more complex portfolio, in 2023 IFAD is expected to deliver a record number of 40 new projects and programmes for an overall commitment level of US\$1.5 billion, at a time of increasing levels of food insecurity.
3. In line with commitments under the Twelfth Replenishment of IFAD's Resources (IFAD12), Management confirmed that the main focus of the 2023 budget was on country programmes and Decentralization 2.0, with several cuts having been made in other areas such as research activities and the volume of documents. As a result of these trade-offs, Management was able to bring down the budget request from a 3.5 per cent real increase presented in the high-level preview to a 2.9 per cent real increase.
4. It was noted that the compound inflation rate of 2.33 per cent was a result of close monitoring of price levels and the effect of several variables including a significantly stronger United States dollar.
5. The proposed capital budget for 2023 was confirmed at US\$6.5 million, as was IFAD's return to the pre-pandemic level of carry-forward of below 3 per cent, considering a forecast 2022 budget utilization of around 97.7 per cent.
6. With regard to the medium-term outlook, Management highlighted the importance of having this conversation as part of the IFAD13 Consultation.
7. The Director, Independent Office of Evaluation of IFAD (IOE), presented the IOE results-based work programme and budget proposal, which had benefited from the discussion held with, and the supportive feedback received from, the Audit Committee, the Evaluation Committee and the Executive Board in September and October 2022.
8. In outlining the 2023 IOE planned activities, it was noted that the work programme and budget of IOE for 2023 was informed by IOE's multi-year strategy, and that the modest budget increase already presented in the preview had been reduced even further due to lower estimates for staff costs. Hence, the 2023 proposed envelope is lower, in nominal terms, than IOE's budget in 2019 and 2020, and even than in 2010.
9. The Committee expressed appreciation for a well-conducted, inclusive and consultative budget preparation process. The Committee welcomed the improvements made to the document since September. Members commended Management's efforts to strengthen the focus on prioritization and alignment with IFAD's reforms and evolving strategic direction. Members underpinned the importance of prioritizing IFAD's core business of delivering results through its country programmes and appreciated the identification of additional cost savings.

10. While noting IFAD's particular situation, some members reiterated their expectation of zero real growth budgets across international organizations. While encouraging a continued focus on decentralization, there were requests for additional clarity on the areas of de-prioritization and the implications for IFAD in terms of what the organization will be doing less of. Some members expressed concerns about a reduced role for IFAD in policy-engagement-related activities in-country and the planned reduced role of multilateral and inter-agency collaborations, including with the Rome-based agencies (an area where Board members in the past had asked for stronger engagement).
11. Management clarified that the de-prioritization of global engagement activities would entail rationalizing IFAD's participation in certain meetings and forums, without compromising major opportunities for collaboration and resource mobilization. Management also agreed on the continued importance of decentralization.
12. Clarifications were requested in regards to IFAD's cost definitions and classifications, with members requesting further information to facilitate cost comparisons with other international financial institutions, inter alia, on the SMART budgeting initiative (direct versus indirect costs).
13. Members noted the severely elevated level of the vacancy rate, and questioned how this was being budgeted, including in light of the addition of further posts. They appreciated Management's efforts to prioritize the reduction of the vacancy rate. While acknowledging the challenges, Management reassured the Committee that reducing the vacancy rate is a top priority for IFAD and that in doing so, due attention would be placed on geographical and gender balance. It was confirmed that filling vacancies during 2023 would not affect the budget as all existing positions had been fully budgeted.
14. Some members voiced concerns about the rise in consultancy expenditures in the 2023 budget proposal and the reasoning behind higher travel costs despite IFAD's increased presence in the field. They referred to the fact that Management had argued in the past that new positions would help to reduce consultant costs and that there seemed to be a contradiction between increasing decentralization (including increasing budget for decentralization) and significant increases in travel costs.
15. Members welcomed the positive outlook on the 2022 budget utilization, with some members encouraging IFAD to continue reducing the carry-forward. Nonetheless, Management emphasized the importance of maintaining the carry-forward as an instrument to cover unforeseen expenditures.
16. In concluding, members also raised some concerns about the absence of efficiency gains related to the People, Processes and Technology Plan (PPTP) process, while in fact, against expectations, additional recurrent costs were being proposed in the administrative budget for the PPTP.
17. The 2023 results-based programme of work, and regular and capital budgets, along with the IOE results-based work programme and budget for 2023, were deemed reviewed. It was agreed that the document would be submitted to the Executive Board at its December session.