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## **Report of the Audit Committee on IFAD's 2024 results-based programme of work, and regular and capital budgets, and IOE's results-based work programme and budget for 2024 and indicative plan for 2025–2026**

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**Useful references:** IFAD's 2024 results-based programme of work, and regular and capital budgets, and budget outlook for 2025–2026, and IOE's results-based work programme and budget for 2024 and indicative plan for 2025–2026 ([AC 2023/171/R.2](#))

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

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**Technical questions:**

**Saheed Adegbite**

Director

Office of Strategic Budgeting

e-mail: [s.adegbite@ifad.org](mailto:s.adegbite@ifad.org)

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## **Report of the Audit Committee on IFAD's 2024 results-based programme of work, and regular and capital budgets, and IOE's results-based work programme and budget for 2024 and indicative plan for 2025–2026**

1. Management introduced 2024 net budget proposal, which amounts to US\$183.41 million, covering both regular and capital budgets. Management assured members that the budget was prepared following extensive internal consultations on strategic priorities, and that it took into account feedback received from the 170<sup>th</sup> meeting of the Audit Committee and discussions on the high-level preview at the 139<sup>th</sup> session of the Executive Board.
2. Management highlighted the challenging context and IFAD's clear focus on inclusive and sustainable rural transformation, especially in fragile contexts.
3. In line with Twelfth Replenishment of IFAD's Resources (IFAD12) commitments, Management confirmed that the main drivers of the 2024 budget were: (i) programme delivery and impact, supervision, and the pivotal task of addressing fragility challenges and (ii) the continuing decentralization process, entailing the establishment of two new regional offices, one in the Asia and the Pacific region and one the Latin America and the Caribbean region. It was also underscored that 57.3 per cent of IFAD's 2024 regular budget would directly fund programme-related costs.
4. Concerted efforts on strategic prioritization had enabled Management to propose a moderate real increase of 1.7 per cent, lower than the high-level preview forecast of 1.9 per cent in September and lower than increases observed in recent years.
5. Price adjustment assumptions were provided in the document, supported by a detailed description of the compound inflation rate of 2.68 per cent applied to the 2024 proposed budget.
6. The 2024 capital budget amounted to US\$6.1 million, covering cyclical and business continuity capital expenditures that have an economic life of more than one year, and investments related to the corporate priority of decentralization and other key investment projects.
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 2023.
8. In outlining the 2024 IOE planned activities, it was proposed that a new post at the P-4 level be added to enhance IOE's capacity to conduct strategic evaluations and that a communication post be upgraded from P-3 to P-4. These changes would ensure greater alignment of IOE's resources with the requirements of its multi-year strategy 2022–2027.
9. The total proposed IOE budget for 2024 amounts to US\$6.144 million, embedding a nominal increase of US\$173,000 compared to 2023, and corresponding to 0.53 per cent as a ratio to the programme of loans and grants (PoLG) of IFAD, well below the cap of 0.90 per cent.
10. The Committee welcomed the improvements made to the document since September. Members commended Management's efforts to recalibrate the budget proposal through strategic prioritization and trade-offs and contain the real increase to a relatively moderate level.

11. Members acknowledged the increased allocation to programme delivery, highlighting the importance of prioritizing IFAD's core business of delivering results through its country programmes. Members also expressed appreciation for the cost savings identified.
12. In noting IFAD's advanced stage in the decentralization process, which should hit the target for staff in the field by the end of 2024, some members reiterated their expectation for IFAD to return to a state of budget stability, where the organization is fit for purpose with the required resources needed for its current and future organizational needs, with a focus on programme delivery and results at country level.
13. Members also noted the importance of providing a medium-term outlook for budgetary needs, especially in light of the IFAD13 process, to be accompanied by revised efficiency indicators to improve Management's and Committee's ability to take strategic decisions and ensure oversight.
14. Finally, members expressed concerns in terms of medium-term budgetary sustainability and of general consistency given the significant increase in total IFAD staff while the vacancy rate still remained high. In this context, there was a call for caution for a large, decentralized IFAD not to overburden administrative costs.
15. In addressing members' comments on the 4.4 per cent nominal growth, Management reiterated its commitment to maintaining the nominal growth trajectory towards zero in future years.
16. In addition, Management clarified that the applied price increase of 2.68 per cent is low considering the current global economic and inflationary context. The 2.68 per cent level had been achieved by absorbing some of the price increases within the proposed nominal growth.
17. Management clarified that proposed staff increase in 2024 was a net figure, accounting for new and abolished positions, including conversions of existing service contracts into fixed-term staff positions. In this context, Management also noted that a reduction in non-programme-related consultancies had been achieved.
18. On the vacancy rate, despite performing better than other Rome-based agencies and some United Nations agencies in terms of recruitment timeline, IFAD remained committed to prioritizing the reduction of the vacancy rate to a single-digit level.
19. Responding to members' observations on efficiency ratios and their recognition of the move from 55 per cent direct cost ratio to 57.3 per cent in 2023, Management agreed to increasing the focus on the most effective efficiency ratios and considering new ratios such as the ratio of indirect costs to the overall programme of work, which was in line with best practices of international financial institutions.
20. IFAD confirmed its strong commitment to prioritizing programme delivery, impactful operations and decentralization. This is evident in the reallocation of resources, as demonstrated by the increase in direct costs with respect to the 2023 budget.
21. Management clarified that the difference between the 2024 PoLG figures reported in the resources available for commitment (RAC) document and those in the 2024 budget document was due to the fact the RAC presents the maximum level of resources that could be committed in 2024. The budget document on the other hand presented the actual planned PoLG levels, which fluctuated depending on various factors in the design and delivery processes and which, in all cases, cannot exceed the amount communicated in the RAC.

22. For 2024, Management confirmed its strong commitment to delivering the PoLG, noting that many projects had already been designed and frontloaded in 2023. PoLG delivery would be achieved despite the fact that IFAD financing demand is affected by the global economic crisis, fluctuating interest rates and political instability. Management assured members that it has capacity to deliver at such levels – for example in 2019, 47 investments were approved for US\$1.6 billion – and confirmed to members that it was on track to deliver in 2024.
23. The 2024 results-based programme of work, and regular and capital budgets, along with the IOE results-based work programme and budget for 2024, were deemed reviewed. It was agreed that the document would be submitted to the Executive Board at its December session.