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Enabling poor rural people
to overcome poverty

Update on change and reform implementation

Progress report on IFAD's operations, Strategic Framework, Medium-term Plan, human resources reforms and other change initiatives

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For: **Information**

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Abbreviations and acronym

HR	human resources
HRD	Human Resources Department
HRPM	Human Resources Procedures Manual
IFI	international financial institution
MOPAN	Multilateral Organisations Performance Assessment Network
MRG	Management Review Group
MTP	Medium-term Plan
PMD	Programme Management Department
RMP	Resource Mobilization and Partnership Unit
SWP	Strategic Workforce Plan
ZBB	zero-based budget

Executive summary

1. In April 2010, IFAD Management presented a paper to the Executive Board outlining the key areas of IFAD's change and reform agenda. Today, Management remains deeply committed to pursuing this initiative; although encompassing many areas of activity, at the broadest level this effort seeks closer alignment between IFAD's human and financial resources on the one hand, and its strategic priorities and key deliverables on the other.
2. The rationale for this undertaking is twofold. In the short term, the reforms are aimed at strengthening the Fund's internal processes and management in order to deliver the ambitious programme of work established at the Eighth Replenishment. Looking forward, these changes are also expected to lay a solid foundation for delivering future programme of work commitments sustainably and more efficiently over the medium term.
3. To keep the Executive Board informed of the progress being made under this initiative, this paper provides a brief overview of IFAD's operational results during 2010 as well as a status update on the change and reform effort itself.
4. During the year, the Fund increased total new lending and grants volume by 19 per cent to some US\$855 million (in excess of the US\$800 million originally projected) while simultaneously maintaining the quality and improving the efficiency of its operations. Deployment of and refinements in IFAD's new "operating model" led to higher disbursement rates, reductions in some projects' operating and design costs, and decreases in average project duration.
5. At the same time, the Fund also made notable headway in implementing the Change and Reform Agenda. While some reforms are ongoing and require further attention and consideration, many others are significantly under way or – in some cases – completed.
6. At the corporate level, IFAD has completed the new Medium-term Plan 2010-2012. The plan provides Management with a roadmap for meeting its Eighth Replenishment commitments in the near term and responding to changes and opportunities over the longer term. Informed by the preliminary findings of an external review, Management has also decided on the reconfiguration of the Fund's financial operations and administration.
7. Over the last eight months, a spate of reforms in human resources has been undertaken. The staff rules have been rewritten to become effective 1 January 2011 and the Human Resources Procedures Manual is 75 per cent complete. The remainder will be finished with the newly adopted Strategic Workforce Plan and an external review of IFAD's compensation structure. Separately, the Human Resource Division has been engaged in revisiting policies related to staff compensation, benefits and deployment, overhauling the performance management system, and strengthening human resources management itself.
8. Throughout the institution, other reforms in the areas of financial management, enterprise risk management, resource mobilization, information technology and general administration are continuing apace.
9. Management is confident that full implementation of the proposed reforms will undoubtedly strengthen the Fund. Indeed, Management believes that by achieving these objectives and delivering on its commitments under the Eighth Replenishment, IFAD will position itself post-reform as an agile model financial institution within the United Nations system.

Update on change and reform implementation

Progress report on IFAD's operations, strategic framework, Medium-term Plan, human resources reforms and other change initiatives

I. Introduction

The context for reform

1. As the Seventh Replenishment period came to a close and the Eighth Replenishment period began, IFAD found itself operating in a changed environment. New and promising opportunities – the largest replenishment increase in the Fund's history, increased visibility on the international stage, and changes in the institution's leadership – were met with a considerable challenge: delivering a 50 per cent increase in the programme of work while maintaining or enhancing the quality and results of operations.
2. Since the Fund could not expect a proportionate increase in its administrative budget to accompany the ambitious increase in the programme of work, seeking out efficiency gains throughout the replenishment period would be critical.
3. The Eighth Replenishment Consultation acknowledged IFAD's commitment to achieving and measuring development results, and its track record as a trusted partner of governments and other stakeholders, reflecting a particularly broad-based membership and governance structure.
4. To further improve IFAD's effectiveness, the Consultation agreed that the Fund would implement a number of actions during the Eighth Replenishment period. The key actions envisioned related to developing a new strategic framework and preparing a number of policies and strategies for new and important areas of intervention (e.g. climate change, further strengthening financial management, etc.).¹
5. While calling on IFAD to consolidate the reforms launched by IFAD's 2005 Action Plan for Improving its Development Effectiveness, and notwithstanding commitments on a broad spectrum of issues, the Eighth Replenishment agreement did not involve the sort of broad institutional change agenda mandated under the Seventh Replenishment.²
6. Nevertheless, Management did not take the recognition of IFAD's performance as an endorsement of business as usual. Rather, it remained keenly aware of the need for the Fund to better position itself to support smallholders in the context of an evolving and challenging food security and agricultural development landscape. To this end, IFAD committed itself to continue to strengthen the impact of the significantly larger number of operations it supported, and meet very ambitious cofinancing and resource mobilization targets, all while improving internal efficiency.

The change and reform initiative

7. In April 2010, Management submitted a paper to the Executive Board outlining the approach needed to meet this multifaceted challenge. In the document, entitled Change and Reform: Implementation,³ a number of corporate initiatives were identified and discussed, all of which were aimed at strengthening the Fund's ability to manage and deploy its human and financial resources. Some of the identified areas for reform were ongoing or follow-up actions that flowed from previous

¹ Major deliverables other than the programme of work for 2010-2012 are listed in annex I.

² See annex I for key deliverables under the Eight Replenishment.

³ Please refer to document EB 2010/99/R.31.Rev.1.

commitments (such as the 2005 Action Plan process). Other changes were new, and some required further study before implementation.

8. The primary categories of reform included:
 - (a) Reconfiguring Senior Management and streamlining the internal decision-making process;
 - (b) Initiating IFAD's first-ever medium-term plan and its subcomponents;
 - (c) Initiating a series of human resources (HR) policy changes to strengthen IFAD's management capacity, working environment and performance management, and to ensure that staff are deployed in line with strategic priorities; and
 - (d) Seeking out other institutional efficiencies, both in IFAD operations and in all support functions
9. Management remains committed to implementing the reform agenda as, collectively, these changes aim to support the Fund in its delivery of its Eighth Replenishment commitments and, more broadly, to lay a solid foundation for delivering an expanded programme of work over the medium term.
10. This brief note seeks to update the Board on the progress Management has made to date in meeting the targets under its programme of work and implementing the Change and Reform Agenda. While some reforms are ongoing and require further attention and consideration, many others are significantly underway or – in some cases – completed.
11. The following section provides a brief update on the delivery of IFAD's programme of work. Section III discusses the progress made in implementing the Change and Reform Agenda to date, whereas section IV briefly discusses the way forward.

II. Update on the delivery of IFAD's programme of work

12. The Change and Reform Agenda is driven by the need to respond to the Fund's increasing programme of work. All of the reforms – either directly or indirectly – are aimed at realizing cost savings, time reductions, or increases in corporate performance and effectiveness, which can collectively be leveraged to reach IFAD's Eighth Replenishment targets for its programme of work.⁴ This section reports briefly on where the Fund currently stands in meeting those targets.

The 2010-2012 programme of work

13. IFAD's key deliverables underpinning its impact objectives are the design and implementation of projects. In 2010-2012, it is projected that the Fund will develop and implement 117 new projects, with a target level of IFAD loan and Debt Sustainability Framework grant commitment of approximately US\$3 billion and attracting total cofinancing of approximately US\$4.5 billion (including from other donors, governments, beneficiaries and the private sector). This is the largest programme of work to date in the Fund's history (see annex II, table 1).
14. In 2009, the Executive Board approved 33 projects. In 2010-2012, the average will be 39 per year (excluding supplementary loans and grants). Moreover, during this time frame, project design initiatives are planned for up to 120 Member States, an increase from 90 countries from the 2007-2009 period. In addition, IFAD's regular grant programme will provide grants to about 50 projects per year and amount to nearly US\$200 million for the three-year Eighth Replenishment period.
15. **Results in 2010.** For 2010, the programme of loans and grants is currently projected to reach US\$855 million (see table below), in excess of the US\$800 million projection.

⁴ IFAD uses a Results Measurement Framework to monitor its progress in achieving both quantitative and qualitative programme of work targets.

Past and projected programme of work

Year							<i>Projected</i>	
	2005	2006	2007	2008	2009	2010	2011	2012
Loans and grants* (millions of United States dollars)	536	557	600	602	717	855	1000	1144
Percentage annual change	3.9	7.7	0.3	19	19	12.6	14.4	

* IFAD annual reports and Medium-term Plan 2010-2012

16. Despite the significant increase in the delivery of operations in 2010, IFAD brought about major improvements in project impact relative to the baseline (annex II, table 2). In addition, IFAD's quality assurance function cleared all projects for presentation to the Executive Board for the first time since the inception of the programme. By and large, these and other outcomes suggest that in 2010 the Fund succeeded in growing the volume of its operations by some 19 per cent without sacrificing overall project quality – either with respect to the management of ongoing projects or the quality-at-entry of new projects.⁵
17. The expansion of the programme of work as a result of the replenishment process has taken place in parallel with a drive to improve quality through the adoption of the quality enhancement and quality assurance processes, and is supported more generally by the change and reform process. Indeed, the impact of IFAD's ongoing change initiative has also been noted by external reviewers. The forthcoming report on IFAD's effectiveness by the Multilateral Organisations Performance Assessment Network (MOPAN) gives (in its October draft report) positive feedback on IFAD's operational effectiveness and notes that the Fund's "reforms are providing the foundations for key organizational systems and practices that favour its organizational effectiveness".
18. This year's improvement in the quality and the increased volume of operations was sustained within an agreed administrative budget. Where real increases did take place, they were in the area of operations, although real increases were far below the rate of increase in the programme of work. Another way of looking at this is that the programme of loans and grants increased by 19 per cent from 2009 to 2010 (US\$855 million compared with US\$717.5 million), while the administrative budget expanded by 4.4 per cent in real terms (US\$115.31 million in 2009 to US\$124.04 million in 2010).

Progress on implementing IFAD's operating model

19. During the Seventh Replenishment period, IFAD launched its new "operating model", a series of changes to its country programme management function. Included in these changes were: (i) direct supervision of projects and greater implementation support; (ii) an expanded country presence of IFAD staff; (iii) improved partnerships with other institutions; and (iv) an expanded role in policy dialogue and knowledge-sharing. Changes and improvements in these elements during 2010 are briefly discussed below.
20. **Direct supervision and implementation support.** By the end of 2010, IFAD staff were directly supervising some 91 per cent of all projects under implementation, a substantial improvement over the 16 per cent of projects directly supervised by the Fund in 2007 (see annex II, table 3). Specialized fiduciary expertise (procurement, verification of withdrawal applications) has been significantly strengthened since the beginning of 2008 through recruitment of specialists and training of staff. Senior portfolio managers have been retained in

⁵ At the aggregate level, results from this year's quality assurance process also show an increase in the likelihood of projects achieving their development objectives, substantial progress in three Results Management Framework indicators, and the need to improve in two others. For more information, see page 5 (paragraphs 17 and table 2) in the annual report on quality assurance in IFAD-funded projects and programmes submitted to this session of the Board.

each regional division and in the Programme Management Department (PMD) front office, and staff in the Controller's and Financial Services Division have received training. In addition, IFAD has developed internal guidelines for handling withdrawal applications, procurement issues, project financial management and audit. Staff training programmes have complemented these guidelines. New procurement guidelines were approved by the Board in September 2010.

21. **Country presence.** In 2006 the IFAD Office of Evaluation found inadequate country presence to be a major factor inhibiting IFAD's ability to engage effectively in country policy dialogue, to partner with other donors having local country representation, and to supervise and provide project implementation support effectively. By 2009, the number of country offices was expanded to 25 and in 2010 to 28, within the maximum limit of 30 offices permitted by the Executive Board.
 22. Country offices remain small (generally two people), using office space provided by other United Nations agencies and administered locally by these agencies. The country offices are connected to Rome virtually through IT systems that provide them with access to corporate information and services. These arrangements have proved to be highly cost-effective. IFAD programme size has been the principal criterion for the decision to open a country office, with exceptions made in some fragile states where operating from Rome is ineffective. For 2011, Management plans to request Board approval to open an additional five offices; this topic is discussed in greater detail in a separate paper submitted to this session of the Executive Board.
 23. **Cofinancing and partnerships.** Cofinancing is a key element of IFAD's operating model; today the number of IFAD's public-sector cofinancing partnerships is expanding and includes many partners.⁶ Moreover, IFAD has very close partnerships with many international institutions, NGOs and foundations; and work with the private sector is being strengthened, with some innovative operations now under way. Most important in this regard is IFAD's work with the African Enterprise Fund, spearheaded by the French development agency (Agence française de développement) to which the African Development Bank and the Alliance for a Green Revolution in Africa are also contributing. In 2010, IFAD's cofinancing continued to increase, totalling US\$417 million as at September (the end-of-year number is not yet fully recorded as of this writing). Several departments within IFAD are now working together to finalize the details for implementing the €300 million Spanish Food Security Cofinancing Facility Trust Fund, which was approved by the Executive Board in September 2010.
 24. **Higher policy profile.** The global concern with agriculture and food security precipitated by the food price crisis has enabled IFAD to take a distinct role in the development of clear and direct development messages for global development policy dialogue, as exemplified by IFAD's role in the Group of Eight (G8) Summit in L'Aquila, the World Economic Forum and the Global Conference on Agricultural Research for Development. These offered a unique opportunity to promote smallholder development as part of global solutions with both high-level policymakers and the general public – and laid a foundation for the Fund's targeted high-level dialogues in 2010. For example, during the year, IFAD's President chaired the World Economic Forum's Global Agenda Council on Food Security.
- Greater operational efficiency**
25. The ongoing refinement of the operating model has led to a number of operational efficiency gains.⁷ In 2010, disbursement rates increased (up 19 per cent in 2010);

⁶ Cofinancing partners include the African, Asian and Inter-American Development Banks; the World Bank; the OPEC Fund for International Development; Governments of IFAD's Member States; the European Commission; the United Kingdom's Department for International Development; the Food and Agriculture Organization of the United Nations; the Global Environment Fund; the Belgian Fund for Food Security; and the Bill & Melinda Gates Foundation in connection with the Alliance for a Green Revolution in Africa.

⁷ This topic will be the subject of a special annex of IFAD's 2011 budget document.

the average time required to move from approval to project effectiveness decreased; and time overruns declined, with only 9 per cent of completed projects overrunning their original expected completion date (compared with 23 per cent in 2009). Moreover, increased country presence has yielded better coordination with project operations, leading to some declines in the cost of project operations and project design and across-the-board decreases in project duration (dropping from 7.6 and 7.9 years in 2008 and 2009 respectively, to 7.0 years in 2010).⁸

26. These efforts have been supported through cost reallocations among divisions, enabling the shifting of additional resources to quality improvement, supervision and results management. In the West and Central Africa division, for example, the increased focus on supervision has led to a decrease in project operating costs of about 30 per cent, freeing up resources for use in improving other projects considered "at-risk".
27. Finally it should be noted that IFAD not only develops and implements projects financed from its own resources, but also helps other donors and funding sources to identify, prepare, appraise and supervise agriculture and rural development projects,⁹ using incremental management fees. When the effect of this expanded programme is taken into account (financially) in addition to its own programme of work and administrative budget, the efficiency improvements are even more substantial than when tracked only through the ratio between the administrative budget and IFAD-funded loans and grants.

III. Update on the Change and Reform Agenda

28. To enable and sustain gains in performance and efficiency over the medium-term, Management launched the Change and Reform Agenda in 2010. This initiative is comprised of several broad thematic areas, which are: strengthening management, new corporate management instruments, human resources reform, improving business processes, risk management, and cost savings.
29. In April 2010, the constituent elements of this agenda were first presented to the Executive Board and, over the last eight months, progress has been achieved in many areas. Details and status updates regarding each of the reform areas are presented in greater detail below.

A. Strengthening management

30. In April 2010, a number of initial changes were reported to the Executive Board, including: changes made to the configuration and portfolio responsibilities of the Office of the President and Vice-President; upgrading of the position of the head of PMD to the level of associate vice-president; creation of the Environment and Climate Change Division; establishment of the Office of the Chief Development Strategist, and establishment of the post of chief finance and administration officer.
31. Over the course of the last eight months, the developments given in the following paragraphs have occurred.

⁸ The causes and effects of these improvements are currently under analysis as part of the country presence self-evaluation requested by the Executive Board.

⁹ In 2010, IFAD significantly increased the funds that it administers on behalf of other donors, and the resources it mobilizes for IFAD-financed projects from cofinanciers, governments and foundations. The European Commission provided IFAD with US\$150 million in grants to the Consultative Group on International Agricultural Research (CGIAR) to administer and supervise on its behalf, US\$50 million for the European Food Facility for IFAD to allocate to projects and to supervise, and US\$6.5 million for farmers' organizations. Traditionally, IFAD has mobilized between US\$300 million and US\$400 million per year from other donors for cofinancing of agriculture projects, and a comparable amount from governments in borrowing countries. In addition, the Fund is an implementing agency of the Global Environment Facility and hosts several international initiatives that benefit from its administrative support (the High-Level Task Force, the International Land Coalition, and the Global Mechanism of the United Nations Convention to Combat Desertification). A new initiative is the multilateral Global Agriculture and Rural Development Programme (GAFSP) - IFAD is the supervising entity for two of the eight GAFSP programmes approved to date (Togo - US\$19 million, and Sierra Leone - US\$50 million).

32. **Strengthening financial and administrative management.** The President has commissioned an external review of IFAD's financial operations.¹⁰ Its scope covers assessments of the management structure; IFAD's mandate; the organization's policies; the organization of work; and procedures of IFAD's financial complex. In light of preliminary findings from this exercise, IFAD is taking steps to reconfigure the Finance and Administration Division in order to (i) build a robust and professional financial operation complex and (ii) streamline IFAD's corporate services.
33. As of 1 January 2011, IFAD will establish a Financial Operations Department to be headed by a chief finance officer and a Corporate Services Department under a head of department. Further details regarding the reconfiguration, supervisory responsibilities and other arrangements will be communicated to the Executive Board.
34. Management has established a special task force to expedite the recruitment of several key senior management positions. Given the changes to the structure and management of IFAD's financial operations, it will be critical to have onboard a new chief finance officer, a head of the Corporate Services Department, a director and controller, and a budget manager as soon as possible. In addition, other key senior positions such as the director of the Human Resources Division (HRD) and the chief development strategist are being actively recruited.

B. New corporate management instruments

35. A key component of the change and reform initiative has been the development of a suite of new instruments (strategic, analytical and financial) designed to strengthen the Fund's corporate management. These are: the new Strategic Framework, Medium-term Plan, Strategic Workforce Plan, the Zero-based Budget exercise, and enhancements to the Fund's resource mobilization efforts.
36. **The new strategic framework.** The draft of IFAD's fourth strategic framework covering the period 2011-2015 has been completed and is being presented to this session of the Board. The strategic framework presents IFAD's strategic orientation, overarching goal and strategic objectives, and areas of thematic focus. It also articulates the principles of engagement that will guide the Fund's operations and the organizational instruments that it will use to deliver its strategic framework. The framework draws on the Report of the Consultation on the Eighth Replenishment of IFAD's Resources and is informed by reports on IFAD's development effectiveness and the reports of the IFAD Office of Evaluation.
37. In response to the changing global context for IFAD's operations, and driven by a more dynamic vision of rural development, the new strategic framework articulates some important changes in IFAD's strategic orientation. It recasts IFAD's overall development goal while retaining, with some modifications, most of the current thematic areas of focus for its operations. Moreover, most of the current principles of engagement that guide IFAD operations have been retained, while three new ones have been added, reflecting lessons learned from IFAD operations.
38. The new strategic framework does not call for change in IFAD's unique mandate or mission – that of improving food security and enabling rural women and men to overcome poverty. However, it calls on IFAD to leverage more effectively the comparative advantages that it has built over three decades working with the rural poor so as to achieve greater and more sustainable impact, particularly in the context of new global food security and climate change initiatives.

¹⁰ This is in line with the reconfiguration of management responsibilities and reporting arrangements (PB/11/2009) in December 2009. This strengthened the organizational structure of IFAD to deliver on its Eighth Replenishment commitments and goals, including the expanded programme of work.

39. **The Medium-term Plan (MTP).** In September 2010, Management completed IFAD's Medium-term Plan 2010-2012, and has submitted an update of the document to the Executive Board for information at its current session.
40. Using inputs from across the institution, the MTP sets out a rolling three-year corporate workplan, which gives details on how IFAD expects to accomplish its strategic objectives of rural poverty reduction and food security during the Eighth Replenishment period. The current version of the MTP, informed by the zero-based budgeting exercise and IFAD's Strategic Workforce Plan, enables examination of how IFAD allocates administrative and human resources to achieve its outputs and strategic objectives.
41. The MTP will be issued each April but will be constantly reviewed and reassessed during the year for the progress made in implementing planned activities.¹¹ In the logical framework of the workplan, the MTP highlights the delivery of IFAD's programme of work, technical services and policy dialogue, and its knowledge management products. It lays out a plan – including both policies and strategies – that enhances the Fund's capacity to deliver solutions that lead to smallholder poverty reduction. The MTP also outlines the assumptions that underpin effective and efficient execution of these programmes, and identifies risks that must be mitigated if IFAD's work is to have sustainable development impact.
42. **The Strategic Workforce Plan (SWP).** The first iteration of IFAD's Strategic Workforce Plan has been finalized and is detailed in the progress report on human resources reform, which is being submitted separately (document EB 2010/101/R.49) for the Executive Board's information.
43. The SWP is a tool that provides an assessment of how the current workforce is aligned with IFAD's development results and efficiency objectives, and how the workforce profile needs to change in order to maximize impact and efficiency. Moreover, the SWP lists the specific steps that must be taken and the tools that must be developed to shift from the "as is" to the "needs to be" profile.
44. At a very high level, the SWP finds that IFAD's workforce has been evolving in the right direction: the workforce outside the direct operational area has fallen since 2005, and the workforce in the direct operational area has risen quite rapidly. However, areas of weakness have been identified: a possible overexpansion of the consultant workforce with some core activities being entrusted to consultants and a very high ratio of General Service (GS) to Professional (P) staff.¹² There are also indications that pay scales may be misaligned with relevant comparators nationally and internationally.¹³
45. The SWP makes specific recommendations for how the Fund's current staff profile should change. These include: strengthening staff capacity in country programme development and career development; pursuing greater country-level engagement in country offices; seeking to reduce the size and cost of the workforce outside of direct country operations; reducing the GS staff element of the workforce; and improving the tools for managing staff, such as the contracting framework and the performance management system.
46. More precise numerical targets will evolve in the context of the execution of workforce audits, business automation projects and process streamlining. By the beginning of 2011, all units will manage staff numbers and development under an approved multi-year workforce plan reflecting corporate priorities and oriented to achieving the overall change targets indicated in the SWP.

¹¹ These achievements are annually measured by indicators and targets in the Report on IFAD's Development Effectiveness (RIDE) and evaluated in the independent Annual Report on Results and Impact of IFAD Operations (ARRI), which together enable IFAD to integrate lessons into the multi-year planning tool provided in the MTP.

¹² This may in part be due to some GS staff actually doing P-level work.

¹³ This is the subject of a separate study carried out by an external consultant, which is being presented to this session of the Executive Board.

47. **The zero-based budget (ZBB) exercise.** As previously notified to the Executive Board, in 2010 IFAD launched its first ZBB exercise to address the issues of alignment and efficiency. Therefore, this initial effort gave an overwhelming priority to aligning resources with activities that directly contribute to expanded development impact while reducing overhead support costs and pursuing cost efficiency.
48. The first iteration of IFAD's ZBB exercise has been finalized and is being submitted to this session of the Executive Board for review in the context of the annual administrative and capital budget submissions.
49. Key results from the ZBB exercise include:
- IFAD's overall efficiency in terms of the indicator established in the Eighth Replenishment's Results Measurement Framework will increase, and is on track to reaching the Framework target for 2012;
 - Within IFAD's results-based budget structure, the allocation to support project development will rise (11 per cent) at a level much lower than the increase in the level of new loan and grant commitments that IFAD will directly manage (43 per cent);
 - After several years of zero real growth allocations for corporate management, reform and administration and for support to members' governance activities, the allocation for these areas within the proposed budget will involve a real reduction relative to 2010;
 - In the high-level policy dialogue, resource mobilization and strategic communication area, which represents a very modest proportion of the administrative budget, a small absolute budget increase is devoted to strengthening capacity to support priority activities directly supportive of country programme development and implementation;
 - The annual rise in staff standard costs has been contained. The staff cost inflator was reduced from 7.8 per cent in the 2009 budget to 4.1 per cent in the 2010 budget, and to 2.2 per cent in the proposed budget for 2011; and
 - All units are engaged in a process of cost containment, reduction and reallocation to areas linked to achieving higher levels of development impact.
50. The capital budget uses the same approach, focusing planned investments in those areas that improve administrative efficiency, contribute to reducing costs in highly labour-intensive areas, and accelerate recruitment in the sole area identified for systematic expansion under the SWP – country programme management.
51. **Enhancing IFAD's resource mobilization capacity.** As demand for IFAD's programmes and projects increases, it is essential that the Fund strengthen its resource mobilization strategy and explore all possible sources of financing. This has become more evident against the background of public expenditure constraints among traditional sources of official development assistance.
52. Alternative and innovative approaches to resource mobilization modalities are currently being developed. For example, in 2010 the Executive Board approved the establishment of a Spanish Food Security Cofinancing Facility for receipt of a loan from the Government of Spain that will be used to cofinance support for the scaling up of IFAD-funded projects over the Eighth Replenishment period. Moving forward, Management intends to strengthen its efforts in this area by exploring new opportunities and models for mobilizing funding, identifying new partners, and reviewing the Fund's level of financial partnership with middle-income countries.

C. Human resources reform

53. The successful implementation of the programme of work under the Eighth Replenishment period critically depends on the effective deployment and

management of IFAD's most vital resource – its staff. Therefore, in addition to the SWP, which considers IFAD's staffing needs from a corporate strategy and efficiency perspective, Management is also undertaking a substantial reform of human resources (HR) policies and guidelines themselves.

54. Management's approach to HR reform under the change and reform agenda covers the whole spectrum of HR policies. These include: reviewing IFAD's compensation and benefits package, revising the HR rules and procedures, improving the performance management system, encouraging greater staff mobility, and strengthening HR management itself.
55. Progress made in implementing each of these areas of change is described briefly below, and in greater detail in a separate document being presented to the Executive Board entitled Progress report on human resources reform.
56. **External review of IFAD's compensation and benefits package.** As reported in April 2010, after a competitive tender, IFAD contracted the services of a specialized international consultancy (Birches Umeå AB) to carry out a comprehensive cost/benefit analysis of IFAD's adherence to the International Civil Service Commission for the determination of salaries and benefits.
57. A full report and a presentation on the findings and recommendations of the study on entitlements and benefits will be shared with the Executive Board separately at its December session. Nevertheless, in anticipation of the reform actions that IFAD may take, Management has undertaken a number of measures, including a hiring freeze for GS staff, and plans to carry out a GS job audit, with a view to reclassification of GS to P positions, where warranted, and where tasks and activities are delivered at professional levels; and a hiring freeze for GS staff.
58. **Revision of HR rules and procedures.** To support staff and the efficient operation of the Fund, IFAD has prepared the Human Resources Handbook, which incorporates the HR policy, and rules and procedures. It contains the following three sections:
 - (a) The Human Resources Policy approved by the Executive Board in 2004, which sets out the policy environment for the management of IFAD's human resources.
 - (b) New and revised staff rules, which provide guiding principles for the implementation of the HR policy.
 - (c) Revised procedures (HRPM) to implement the staff rules.
59. The new staff rules will be released effective 1 January 2011. At that time most of the supporting procedures set forth in the revised HRPM will have been finalized and released. The remaining chapters will be developed on the basis of the outcomes of the study by Birches Umeå and the related decisions.
60. **Staff mobility and voluntary separation.** IFAD is reviewing its policies on staff mobility and separation in order to improve effectiveness and efficiency. Procedures on redeployment and rotation will be developed in the revised HRPM.
61. Over the 2009-2010 period, the Voluntary Separation Programme (VSP) has been implemented. Management intends to extend the VSP to 2011 and to this end, a no-cost extension request for the use of the special expenditure approved by the Governing Council for 2009-2010 (resolution 156/XXXII), is being presented to the Board for consideration.
62. **Performance management.** Management has reviewed the existing ePerformance system, and has made several changes. The revised ePerformance system, now called the Performance Enhancement System (PES) instead of Performance Evaluation System, places greater emphasis on the responsibility of directors to provide objective feedback on both performance and development of staff. In addition, the Management Review Group (MRG) will provide only a single

rating, together with a clear indication from the relevant director on the staff member's performance and future within the organizational unit. Finally, the performance enhancement system will become fully automated (ePES) – starting with the 2010 exercise to be completed not later than March 2011 – which is expected to reduce the system's transaction costs substantially.

63. Other performance-related changes are also under way. These include the roll-out of a new staff awards programme to recognize and reward strong individual and team performance; the revision of the 360 degree feedback form and rating system (the 360 exercise itself is expected to be completed by the end of December 2010); and roll-out of new in-house training modules.
64. **Strengthening HR management.** As reported in April 2010, with the reconfiguration of management and reporting relationships, the HR function was moved out of the Finance and Administration Department and reports directly to the Vice-President. In addition, to strengthen and safeguard IFAD's work environment, an Ethics Officer is being recruited and should start at the beginning of January 2011. Further details regarding this initiative may be found in the document entitled Progress report on human resources reform.

D. Improving business processes

65. The change and reform effort seeks to streamline key business processes in order to increase operational efficiencies and strengthen the systems used to support the delivery of IFAD's day-to-day operations. Current efforts at reform in this category include strengthening loan administration and leveraging IT capabilities.
66. **Loan administration.** IFAD is now developing a new loan administration model which is designed to bring greater efficiency to and control over financial aspects of the portfolio, while simultaneously building IFAD's capacity to assess national financial systems adequately. The new model has been successfully tested by decentralizing the processing of disbursements to an IFAD country office. The final results were positive, leading to significant reductions in processing time for disbursement decisions tied to operational realities on the ground.
67. A number of additional actions have been taken to support IFAD's increasing capacity needs in this area, including reallocation of staffing resources, additional training, and revision of important documents that guide the administration of loans and grants. Moreover, the project to replace the underlying IT system – the Loans and Grants System – is proceeding according to schedule. The objective of these activities is to have a full toolset – including increases in both staff capacity and guidance materials – in the area of loan administration and project financial management available by 2011 to support increased supervision requirements created by the Fund's expanding programme of work.

Leveraging information technology

68. As IFAD seeks to achieve greater efficiencies in its operations through the automation and streamlining of business processes, the strategic deployment of IT is becoming increasingly important. To this end, in 2010 the Fund's IT strategy (originally developed in 2008) was revised and aligned with IFAD's MTP. As a result, the areas of strategic IT development have been updated to support operational priorities in 2011-2013. Several key IT initiatives are mentioned below.
69. IFAD is migrating its documents, records and e-mail infrastructure to the United Nations International Computing Centre (UNICC) in order to reduce system downtime and lower costs (both for hardware and staffing) at headquarters. Moreover, as an off-site location for data back-up, UNICC supports the Fund's business continuity plan by allowing for data recovery and resumption of operations.
70. IFAD's IT team is supporting IFAD's growing field presence. More than 70 per cent of IFAD's field offices now have access to the Virtual Private Network; 100 per cent

coverage is envisioned by year-end. This initiative provides all staff working for IFAD with access to corporate applications and services, regardless of location. Moreover, the Information and Communications Technology Division has introduced a web conferencing facility that will yield savings in direct travel costs, staff time and traditional long distance telephone calls.

71. Several “dashboard” initiatives were delivered in 2010 to provide IFAD Management and staff with essential data quickly. In addition, the Project Life File application was developed to enable staff to organize and retrieve key project documents. Finally, several solutions were developed to streamline key business processes, eliminating manual tasks involving data entry and allowing staff to quickly manage, process and retrieve key documents.

E. Risk Management

72. In its day-to-day operation, IFAD faces and manages a wide range of risks, both internal and external. Accordingly, continued effort has been made to build on the positive experience that the Fund has had in developing its risk management framework to date.¹⁴ In a recent report, the Joint Inspection Unit of the United Nations identified IFAD as an “emerging pioneer” in enterprise risk management (ERM), referring to the Fund’s practices in the area of risk, including the ERM governance model.
73. **Enterprise risk management.** IFAD’s corporate risk profile was developed in 2009. It identified key corporate risks across the organization,¹⁵ and constitutes IFAD’s apex risk management mechanism. It has been reviewed by Management and the Enterprise Risk Management Committee (ERMC) to monitor the status of risks and to identify emerging ones.
74. A summary of the five prioritized risks given in the document showed that the three highest risks faced by IFAD from a corporate perspective relate to resource planning and management, while the risks rated fourth and fifth relate to country presence and programmes. In particular, the highest risks relate to the need to adopt an approach to strategic workforce planning that is aligned with the corporate medium-term plan, using appropriate tools and measures that will lead to benefits over the medium term. The Fund is mitigating these risks through the development and execution of the MTP and SWP.
75. In 2010, strengthened management of key risks associated with country-level operations (potential for long set-up periods, high running costs, and inefficient financial administration) has been supported by agreements on contract types, staff selection and recruitment and the, ongoing, self-assessment of country presence. Improvements have also been made to project design quality enhancement and assurance processes, as well as in monitoring fiduciary and performance dimensions of the ongoing portfolio. In 2009, an internal control framework for financial reporting was issued for the first time, and a mapping of the relevant business processes was completed and presented to the Audit Committee in April 2010. These are the first milestones in the Fund’s roadmap towards conforming to industry standards and best practices, including having assertion and attestation processes completed for the financial years 2011 and 2012, respectively. The EMRC will report internally on key issues, solutions and performance on an annual basis to the Audit Committee and the Executive Board.
76. In addition, two key deliverables emerging from the Eighth Replenishment that contribute to improved enterprise risk management are the adoption of an accountability framework and implementation of a financial disclosure policy.

¹⁴ See the recent publication of the Joint Inspection Unit of the United Nations, “Review of Enterprise Risk Management in the UN system: Benchmarking framework”. In addition, the 2010 MOPAN Report on IFAD’s Effectiveness notes that, “the document review was particularly positive about IFAD’s external financial auditing and its strategies for risk management”.

¹⁵ Details of the risks contained in the corporate risk profile developed in 2009 were presented to the April 2010 session of the Executive Board, document EB 2010/99/R.30, “Annual Report of Enterprise Risk Management Activities in IFAD”.

77. **Accountability framework.** The accountability framework, which is intended to describe within a single document all elements of accountability in IFAD, is nearing completion. The elements include the organizational roles and responsibilities such as the cascading delegations of authority; management decision-making support mechanisms; accountability mechanisms; accountability; and control and risk management.
78. **Financial disclosure policy.** A two-phase approach has been adopted for implementation of the financial disclosure policy. Starting in 2010, all staff members are required to complete an annual certification of compliance with IFAD's Code of Conduct and disclosure of any assets and income sources outside of IFAD. A more detailed disclosure requirement for key staff will be implemented in 2011. Recruitment of an ethics officer has been deemed necessary to guide and oversee this function.
79. **Business continuity.** The Office of the Chief Finance and Administration Officer – with the support of a business continuity expert – has developed a comprehensive framework for business continuity. This overarching document sets out the policy, governance structure, systems and tools, and a corporate business continuity plan for IFAD, including the identification of critical business processes and their owners. The framework covers the entire cycle of business continuity, and identifies and consolidates the myriad plans, systems and training for business continuity that already exist (or are planned for the future).

F. Cost savings

80. The final pillar of IFAD's change and reform initiative involves a series of small changes aimed at achieving cost savings across the institution. Areas where such changes are currently under way include: operations of the Treasury Division, travel, staff benefits, procurement, records management and facilities.
81. **Treasury's operations.** In 2010, the Treasury Division consolidated the assets managed by external managers and eliminated managers who were performing below benchmarks. This exercise has led to efficiency gains from reduced management fees, improved performance, and better utilization of Treasury's human resources.
82. **Travel policies.** Travel has always been an operational necessity for IFAD staff and a cost driver for IFAD. Through the revision of travel policies in May 2010 and the reduction of some travel related staff entitlements, IFAD travel costs were reduced by an estimated US\$0.5 million in 2010 and the savings are expected to be more substantial in periods to come. An online travel booking application was implemented in 2010, which enables direct bookings by travellers based on IFAD travel rules, thereby streamlining the travel preparation process. Management is now further reviewing the travel policy.
83. **Changes to benefits and entitlements.** The compensation plan for staff with fixed-term and continuing contracts has been revised to remove the non-service component for illness and injury. The savings realized from this measure for 2011 amounts to approximately US\$1 million. IFAD is also undertaking an initiative that will replace the paper coupons currently used for the purchase of petrol by staff entitled to these benefits with electronic cards (similar to those for an automated teller machine). This approach will make the system easier and more user-friendly.
84. **Procurement.** The joint tendering and procurement of services and goods through the Common Procurement Team of the Rome-based agencies will result in corporate savings in 2011. Moreover, by using long-term agreements that are in use at other United Nations agencies, IFAD will avoid certain tendering costs in its procurement and facilities operations. The new procurement manual, which is currently in the approval cycle, explicitly contains provisions to expand the use of other organizations' long-term agreements.

85. **Records management.** In 2010, changes in IFAD's approach to records management resulted in the elimination of several manual processes. The new workflow, once fully implemented, will eliminate the management and retention of paper files with the exception of vital records. As a consequence, the space allocation for archiving will be drastically reduced both at headquarters and in IFAD country offices. Moreover, a paperless work environment pilot has now been launched within the Fund, and additional enhancements to the system, such as automated capturing of metadata for easier record posting, retrieval and retention, were included in the capital budget funding for 2011. This initiative is also part of the "greening" of IFAD's operations.
86. **Facilities.** Several changes were introduced in the management of facilities to achieve maximum value-for-money, reduce energy consumption and carbon emissions. These include, for example, control of the building temperatures and operating hours of heating, ventilating and air-conditioning equipment, reduction of lighting levels outside working hours and of water usage. These changes contributed to IFAD obtaining the prestigious gold-level certification for Leadership in Energy and Environmental Design for the operations and maintenance of existing buildings.

IV. Concluding remarks

87. Management remains committed to implementing the initiatives it has launched under the Change and Reform Agenda. To date, major progress has been made in a number of areas, particularly with regard to reconfiguring Management and completing the first iterations of the Fund's strategic framework, MTP, ZBB exercise and SWP. In addition, a series of HR reforms and number of other change initiatives related to financial operations, country programme management and general administration are now well under way.
88. Although not yet completed, the external review of IFAD's financial operations has already yielded some preliminary findings that make it clear that significant reform in this area is needed.
89. While still a work in progress, the Change and Reform Agenda has supported the expansion of IFAD's operations. The marked increase in the number of projects supported and the total volume of IFAD operations has not come at the expense of lower quality and impact. Indeed, through these efforts the Fund has also managed to increase the efficiency of its operations.
90. In this regard, full implementation of the Change and Reform Agenda will undoubtedly further strengthen the Fund, enabling it to implement successfully the first year of the Eighth Replenishment programme of work. It is crucial that the Fund meet not only its quantitative goals but its qualitative objectives as well. Management remains confident that the strategic alignment of IFAD's resources – both human and financial – will ensure success.
91. Indeed, Management reaffirms its belief that by achieving these objectives and delivering on its commitments under the Eighth Replenishment, IFAD will position itself post-reform as an agile model financial institution within the United Nations system, with an enduring commitment to support smallholder farmers and the rural poor.

Reporting requirements and delivery outcomes under IFAD's Eighth Replenishment

<i>Targeted Executive Board session</i>	<i>Report to be presented</i>	<i>Progress</i>
FINANCIAL MANAGEMENT, FIDUCIARY AND TRANSPARENCY ISSUES		
December 2009	Report of the Audit Committee on the IFAD's 2010 results-based programme of work and administrative and capital budgets, and the IFAD Office of Evaluation's three-year (2010-2012) rolling work programme and 2010 resource issues (integrating the administrative budget and the Programme Development Financing Facility into one administrative budget)	Reviewed at December 2009 Executive Board
December 2010	Report of the Audit Committee on the IFAD's 2011 results-based programme of work and administrative and capital budgets, and the IFAD Office of Evaluation's results-based work programme and budget for 2011 and indicative plan for 2012-2013 Zero-based Budget (not an Eighth Replenishment deliverable)	Presented at informal seminar in association with April 2010 Executive Board Preview presented at September 2010 Executive Board Presented at December 2010 Executive Board
December 2010	Strategic Workforce Plan (not an Eighth Replenishment deliverable)	Presented at informal seminar in association with April 2010 Executive Board Progress reported under Human Resources reform update at December 2010 Executive Board
September 2009	Amendment to IFAD's Policy on the Disclosure of Documents, to allow project/programme design documents to be disclosed to the Executive Board on IFAD's public website prior to Executive Board session during which the project will be considered	Approved at September 2009 Executive Board
September 2010	IFAD Policy on Disclosure of Documents (2010)	A policy of "presumption of full disclosure of documents produced by IFAD" approved at the September 2010 Executive Board
December 2009	IFAD's project procurement guidelines and their implementation, including a comparison with those of the World Bank and reference guide to "Fiduciary Management for Community-driven Development Projects", and assessment of the guidelines' alignment with IFAD's anticorruption policy	Review presented at December 2009 Executive Board Annotated outline presented for review at April 2010 Executive Board Revised Guidelines approved at September 2010 Executive Board
34 th GC, 2011	Resolution to revise lending instruments	Document - "Revision of the Lending Policies and Criteria," presented to December 2009 Executive Board
Each December	Risk Management: The President submits an annual report on IFAD's risk management activities to the Executive Board, through the Audit Committee	Ongoing. Presented at September 2009 Executive Board
HUMAN RESOURCES REFORM		
December 2009	Progress report on human resources reform – a people strategy for IFAD	Presented at December 2009 Executive Board
December 2010	Human resources reform	Presented at December 2010 Executive Board
December 2010	Reports of external assessment of staff compensation and entitlements	Presented at December 2010 Executive Board
Each December	Report on progress in implementing the HR reform agenda (through RIDE)	Presented at December 2009 Executive Board Presented at December 2010 Executive Board
ACHIEVING AND MEASURING RESULTS		
September 2009	Results Measurement Framework for the Eighth Replenishment period (2010-2012)	Approved at September 2009 Executive Board
December 2010	IFAD Medium-term Plan (MTP) 2010-2012 (not an Eighth	Presented at informal seminar in

<i>Targeted Executive Board session</i>	<i>Report to be presented</i>	<i>Progress</i>
	Replenishment deliverable)	association with April 2010 Executive board Progress reported presented at September 2010 Executive Board MTP presented at December 2010 Executive Board
Each December	Report on IFAD's Development Effectiveness (RIDE)	Presented at December 2009 Executive Board Presented at December 2010 Executive Board
ENVIRONMENTAL MANAGEMENT		
April 2009	Environmental Management and Sustainable Development – IFAD's Environmental and Social Assessment Procedures ¹⁰⁰	Reviewed at April 2009 Executive Board
December 2010	Policy on environment and natural resource management (incorporating IFAD's climate change strategy)	Informal seminar held in association with December 2010 Executive Board Policy to be presented for approval at May 2011 Executive Board
CLIMATE CHANGE		
April 2010	IFAD Climate Change Strategy	Informal seminar held in association with December 2009 Executive Board Strategy approved at April 2010 Executive Board
COUNTRY OWNERSHIP		
Each December	Report on performance on country ownership (through RIDE)	Presented at December 2009 Executive Board Presented at December 2010 Executive Board
COLLABORATION AND PARTNERSHIPS		
September 2011	Report on the success of IFAD's efforts to develop a more selective approach to partnerships	
Each December	Report on performance of partnerships (through RIDE)	Presented at December 2009 Executive Board Presented at December 2010 Executive Board
GENDER, EQUALITY AND WOMEN'S EMPOWERMENT		
Each December	Report on performance on gender in its operations (through RIDE)	Presented at December 2009 Executive Board Presented at December 2010 Executive Board
December 2010	Evaluation of IFAD's performance on gender equality and women's empowerment in 2009. Based on the findings of the evaluation, the Executive Board will consider the need to develop a corporate policy and implementation strategy on gender	IOE Evaluation will be presented to December 2010 Executive Board
ENGAGEMENT WITH THE PRIVATE SECTOR		
December 2010	Proposal for IFAD's role and instruments relative to engagement with the private sector, fully consistent with IFAD's mandate	IOE Evaluation in May 2011, proposal for December 2011 Grants to private sector introduced in Revised Grants Policy December 2009
IFAD'S ROLE IN MIDDLE-INCOME COUNTRIES		
September 2010	IFAD's Engagement with Middle-Income Countries	Informal seminar held in association with September 2010 Executive Board Paper to be presented for review at December 2010 Executive Board

<i>Targeted Executive Board session</i>	<i>Report to be presented</i>	<i>Progress</i>
STRATEGIC FRAMEWORK		
December 2010	Strategic framework to guide IFAD's activities in the period 2011 onwards	To be presented for review at December 2010 Executive Board
OTHER		
April 2011	Revised format for project documents presented to the Board (not an Eighth Replenishment deliverable)	In progress

Key data

Table 1

Actual programme of work levels and target (2010-2012) in successive replenishments (millions of United States dollars)

	<i>Fifth Replenishment 2001-2003</i>	<i>Sixth Replenishment 2004-2006</i>	<i>Seventh Replenishment 2007-2009</i>	<i>Eighth Replenishment 2010-2012</i>
Programme of work	1 200	1 514	1 955	3 000

Table 2

Key performance targets and indicators

<i>Results</i>	<i>Percentage of projects rated satisfactory</i>		
	<i>Projects designed during 1995-2001 (rated by IEE)</i>	<i>Latest results from RIDE December 2010 Executive Board^f</i>	<i>Medium-term (2012) target established by Executive Board</i>
Project effectiveness at completion	67%	ARRI – 77% PCR – 86%	85%
Satisfactory impact on poverty at completion	55%	ARRI – 83% PCR – 86%	85%
Satisfactory impact on learning, scaling up and/or knowledge management at completion	25-55%	ARRI – 95% PCR – 79%	85%
Sustainable at completion	40%	ARRI – 65% PCR – 76%	80%
Satisfactory country strategy impact on food security, income empowerment ^b	n.a. (ARRI)	n.a.	n.a.
Satisfactory overall at entry (effectiveness, poverty impact, sustainability, innovation) ^c	-	88%	90%
Percentage of country programmes satisfactory for adherence to aid effectiveness agenda ^d	-	100%	100%
Average time from project approval to effectiveness (months)	18	12.2	n.a.

Note: IEE=Independent External Evaluation of IFAD; ARRI=Annual Report on the Results and Impact of IFAD's Operations; PCR=project completion report; n.a. not available.

^a ARRI figures represent three-year rolling averages; PCR figures represent two-year rolling averages.

^b IOE's sample is too small to measure impact at country level.

^c Composite of four indicators.

^d Client survey data.

Table 3

Evolution of direct supervision

	<i>31 December 2007</i>	<i>31 December 2008</i>	<i>31 December 2009</i>	<i>2010</i>
Number of IFAD projects directly supervised by IFAD	32	101	170	210
Percentage of projects directly supervised by IFAD (relative to the total number of projects under implementation)	16	50	77	91