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Investing in rural people

## Information Note on the Operational Excellence for Results (OpEx) Exercise

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For: Information

# Information Note on the Operational Excellence for Results (OpEx) Exercise

## I. Introduction

1. The agricultural sector is vital for achieving the Sustainable Development Goals and the 2030 Agenda. This is because three quarters of the estimated 800 million people living in extreme poverty are in rural areas. Within this context, IFAD is the only United Nations specialized agency and international financial institution focused exclusively on reducing poverty and food insecurity in rural areas through agriculture and rural development. Therefore, as envisioned in the IFAD Strategic Framework 2016-2025 and in the papers presented to the sessions of the Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11), IFAD has a significant opportunity at the moment to scale up its impact to make a real difference to the livelihoods of poor smallholder farmers, and in doing so, meaningfully contribute to the goals of the 2030 Agenda.
2. To maximize its contribution to the Agenda, IFAD must have the operational capacity to expand its programme of work and scale up its impact. As noted in the IFAD11 Business Model paper,<sup>1</sup> IFAD needs to "embrace a stronger culture of results and innovation across all its operations" to deliver more high-quality projects and generate sustainable results in an efficient and effective manner. Although IFAD has many strengths that need to be recognized and built upon, it is becoming increasingly evident that its operational capacity has plateaued with the current business practices and organizational structure. Therefore, business as usual will not enable IFAD to achieve its ambitious goals and the window of opportunity to propose the necessary changes is limited.
3. As a result, in June 2017, Management began an organization-wide exercise focused on ensuring that IFAD has the operational capacity to achieve its strategic vision for IFAD 11 and beyond. This exercise – entitled Operational Excellence for Results (OpEx) – aims to establish IFAD as a recognized best-in-class performer across the entire spectrum of its operations.
4. The OpEx exercise will assess IFAD's operational model in its entirety, from core business processes to the organization as a whole, and enable staff to contribute to developing and implementing the needed solutions. The approach will be to build on what works, take stock of ongoing improvement initiatives, identify gaps and come up with a single coherent transformation programme with its own governance structure. An OpEx task team composed of both internal staff and external consultancy resources has been set up to support this effort.
5. In addition to being driven by IFAD's strategy and vision as set out in IFAD's Strategic Framework and other strategic documents, OpEx will also be informed by the IFAD11 Consultation discussions. Indeed, OpEx's initial scoping exercise has provided input for the Consultation's discussions and raised new questions about IFAD's strategic directions and business model that have implications for OpEx moving forward, particularly in relation to operational capacity. Management is preparing broad steps to ensure IFAD is ready for the IFAD11 period which will be included in the OpEx exercise.

## II. Process

6. Due to the proposed breadth and complexity of the proposed task, a methodical approach has been adopted for OpEx, encompassing three phases:
  - (i) A scoping phase, concluded at the end of July 2017, involving: a desk review of key IFAD reports (including reports and recommendations of the

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<sup>1</sup> Enhancing IFAD11 business model to deliver impact at scale (IFAD11/2/R.3).

Independent Office of Evaluation of IFAD [IOE]), a stocktaking exercise of existing initiatives and identification of the factors that will be critical to the realization of IFAD's strategic vision to enable detailed specification of the design work to be completed before end-2017; consultation with a broad cross section of staff; and an IFAD-wide survey to identify the key priorities going forward.

- (ii) A design phase, to be conducted between September and mid-November 2017, will produce costed options for organizational transformation and an 18-month implementation and investment plan. It is proposed that the work in the design phase focus on the following work categories:
  - alignment of structures, resources and strong leadership with IFAD's value proposition;
  - embedding international best practices of excellence within IFAD to ensure excellent results throughout the project cycle;
  - embedding continuous improvement and renewal within the organization's culture.
- (iii) An initial implementation phase of 18 months, focusing on priority initiatives. This will take the form of separate subprojects which will be properly integrated with existing initiatives under the OpEx exercise to ensure coherence and optimized results. Due to the urgent need to move forward, certain elements of the implementation phase will overlap with the design phase.

### III. Principles to be adopted for the OpEx exercise

- 7. The key principles underlying OpEx are:
  - (i) Viewing IFAD from an "outside-in" perspective by systematically (a) considering change in its operating environment, (b) listening carefully to feedback from stakeholders, especially clients, (c) benchmarking IFAD with similar organizations and (d) considering international best practice approaches of relevance to IFAD operations.
  - (ii) Taking a bottom-up and participatory approach by listening carefully to the perspectives of all IFAD staff and consultants, especially those in direct contact with clients.
  - (iii) Building internal capacity for organizational development and business process reengineering as there will be a need for continuous improvement beyond the completion of the OpEx exercise and ongoing maintenance of IFAD's global management and control structures will be required.
  - (iv) Fostering strong partnerships, such as with the Rome-based agencies and others, to enhance IFAD's operational capacity whenever feasible.
  - (v) Embracing diversity as a stimulus for excellence.

### IV. Emerging issues and steps forward

- 8. The following list summarizes the emerging issues identified during the OpEx scoping phase: (i) more streamlined and coordinated decision-making and consultation structures; (ii) increased delegation of authority and capacity in the field; (iii) stronger accountability based on cascading performance targets; (iv) enhanced ownership, clarity and streamlining of business processes for more effective and efficient service delivery; (v) better-designed projects with sustainable results focused on meeting client needs; (vi) measures to ensure that the workforce is effectively capacitated, adequately resourced, recognized and incentivized; (vii) better practices and processes to establish client needs and obtain feedback on IFAD performance; (viii) fostering of partnerships to enhance

scale and impact; and (ix) continuous improvement and renewal embedded in the organization.

9. The outcome of the OpEx scoping phase is broadly consistent with the direction set out in the IFAD11 business model paper, in particular the four key dimensions of IFAD's approach in managing for development results, namely: (i) Resource Mobilization: assembling development finance to maximize impact; (ii) Resource Allocation: focusing on the poorest people in the poorest countries; (iii) Resource Utilization: doing development differently; and (iv) Transforming Resources into Development Results: embracing a culture of results and innovation.
10. During the design phase, the OpEx exercise will focus on reviewing the above list and the issues arising from the IFAD11 Consultation discussions. OpEx will then propose costed options for an overall organizational transformation programme designed to get IFAD where it needs to be.

## V. Areas requiring immediate attention

11. The list of emerging issues clearly indicates the intention for OpEx to be a comprehensive exercise covering the entire spectrum of operations. However, during the scoping phase it became clear that in light of IFAD's rapidly evolving operating environment, certain areas would require immediate attention, namely (i) front-loading of decentralization; (ii) reduced delivery time; and (iii) faster disbursement. The rationale for focusing on these areas is provided below.

### Front-loading of decentralization

12. In December 2016, the IFAD Corporate Decentralization Plan was presented to the Executive Board. The plan recognized that decentralization has a positive impact on results. This finding was corroborated by the 2016 Corporate-level evaluation of IFAD's decentralization experience, which highlighted the contribution of decentralization to the improved relevance and overall performance of IFAD's operations. As a result of the positive decentralization experiences and to consolidate the knowledge gained by IFAD over several years, Management proposed a harmonized approach to decentralization with a gradual roll out over five years in the period 2017-2021. This proposed approach was subject to the outcome of a functional analysis of all country programmes to inform the distribution of IFAD Country Office (ICO) models.
13. It is becoming increasingly evident that a five-year plan to roll out decentralization will not allow IFAD to achieve its ambition of maximizing its contribution to the 2030 Agenda. Decentralization needs to be urgently accelerated in order to meet clients' diverse needs across countries of operation and achieve sustainable results. To achieve better results it will be critical to focus on creating systemic linkages with sector and country priorities through enhanced policy dialogue between IFAD and governments; borrowing countries' greater ownership of their own development agendas; better alignment of IFAD's interventions with country priorities; closer donor coordination; and multi-stakeholder partnerships in line with international commitments.
14. Consequently, it is proposed that OpEx perform a rigorous functional analysis taking into account the necessity of front-loading decentralization. This analysis will recognize the importance of ensuring that both traditional project management functions and the emerging non-lending functions (policy dialogue, knowledge management, etc.) are appropriately considered. It will also address the need for adequate resourcing of country offices and the proposed delegation of more functions, while also recognizing the need for strong but adapted headquarters support that provides more strategic guidance and ensures that the appropriate controls are embedded into systems and processes.

#### Reduced delivery time

15. A key element in IFAD's overall operational capacity is the ability to deliver high-quality projects in a swift and streamlined manner. Currently, the average time elapsing between the project concept note and Executive Board approval is 18 months, and a further 16 months passes on average between Board approval and first disbursement.<sup>2</sup> The length of time elapsing between concept note and first disbursement significantly compromises IFAD's overall capacity to deliver a higher volume of projects and better results in an efficient and effective manner. It is therefore something that urgently needs to be addressed.
16. Reducing the time between project concept note and first disbursement will require a rigorous and methodical review of each step of the existing business processes. This review will need to encompass the practices of both IFAD and borrowing countries and consider which elements of the process are fundamental to the process and which can be streamlined. A key focus will be reviewing the elements required to design projects that are more readily implementable and that promote greater ownership on the part of borrowers to facilitate project ratification and make certain appropriate project structures are in place before approval. Work by OpEx in this regard will build on an ongoing review within IFAD on this specific area.

#### Faster disbursement

17. Currently, IFAD's disbursement ratio (comparing disbursements over the last 12 months against disbursable amounts) stands at 13 per cent.<sup>3</sup> This is below the Results Measurement Framework target of 15 per cent and compares unfavourably with external benchmarks. The low disbursement ratio can be attributed to a series of interrelated factors such as complex project design, insufficient sector selectivity and slow project implementation.
18. OpEx will focus on identifying ways of improving the disbursement ratio through a concerted effort to identify ways to simultaneously improve the quantity and the quality of disbursements in order to maximize the potential for better results. It should be noted that good disbursements do not guarantee good results, although the latter are not possible without the former.
19. Similar to project delivery, improving the disbursement ratio will require a rigorous and methodical review of each step of the existing business processes. The OpEx work will also build on an ongoing review within IFAD of this specific area. Improving the disbursement ratio will be another key element in ensuring IFAD has the operational capacity to achieve its strategic vision of maximizing results and impact in order to make a real and tangible impact on the lives of smallholder farmers in line with Sustainable Development Goals 1 and 2.

## VI. Budget implications

20. The 2018 high-level budget preview includes an initial capital and one-time estimate of US\$10-12 million mainly for establishing new ICOs and upgrading ICO facilities to support a larger decentralized staff complement; backfilling of the staff working on the OpEx exercise; external consultants with expertise in various aspects of organizational development and change; initial costs of implementing new initiatives; costs to embed continuous learning within the organization; and necessary investments in systems to support the required changes. As the amounts provided in the budget preview were high-level estimates, a concerted effort will be made during the OpEx design phase to provide greater clarity and granularity in this regard.

<sup>2</sup> Strategic Update Note prepared by the Strategy and Knowledge Department (SKD).

<sup>3</sup> Strategic Update Note prepared by SKD.

21. In addition to the one-time costs, an initial increase in recurrent administrative costs in the short-term is foreseen, resulting mainly from the front-loading of decentralization. However, Management will simultaneously embark on a proactive cost reduction and operational improvement programme to lessen the impact of these immediate increases. Such cost reductions will be achieved through streamlined business processes, coordinated decision-making and a more innovative and better way of doing development business, all of which are integral to the OpEx exercise. The result will be a better value proposition for IFAD in terms of administrative costs and, subsequently, project investments.