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## **Proposal for Enhanced Efficiency and Resource Management**

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**For: Approval**

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## Recommendation for approval

The Executive Board is invited to approve preparation and submission of the IFAD regular budget on a cost classification basis, with management resources to cover indirect costs and programme resources to cover direct costs, beginning with the 2023 financial year. This decision will be reflected in the Governing Council resolution for approval of the IFAD administrative budget.

### I. Introduction

#### A. Background and purpose

1. At the 131<sup>st</sup> session of the Executive Board held in December 2020, Member State representatives requested clarification regarding IFAD's efficiency ratios and tasked Management with conducting and sharing an in-depth analysis of administrative efficiency metrics at peer institutions. The objective was to present a comprehensive picture of the Fund's administrative efficiency and ways to measure progress over time.
2. At the informal seminar of the Board held on 22 July 2021, IFAD presented key findings of the analysis performed, together with a draft three-step proposal to enhance efficiency and resource management:
  - (i) **Enhance transparency and agility** by identifying direct and indirect costs and separating budgets for annual management resources (indirect) and multi-year programme-related resources (direct);
  - (ii) **Enhance results focus** by attributing direct costs to projects as appropriate, using identified cost drivers to determine the efforts and costs associated with specific processes; and
  - (iii) **Enhance efficiency management** by refining efficiency measures and reviewing the related practices.
3. Member State representatives welcomed the draft proposal and commended Management for both the analysis and the steps taken towards further transparency. Members also underscored the importance of adopting the proposed pragmatic approach, leveraging good practices followed by other United Nations organizations and international financial institutions (IFIs).
4. Building on the feedback received, the purpose of this document is to update Member States on progress since the informal seminar and to request segregation of IFAD's regular budget into two parts based on cost classification in accordance with good practice: an indirect expenses component and a programme-related component covering direct expenses linked to programmes and projects.
5. Acknowledging that refining the approach to measuring and managing costs and efficiencies constitutes a continuous process of improvement, it becomes clear that regular monitoring is required, both internally by Management and externally by the governing bodies.
6. Internally, IFAD has established a quarterly corporate efficiency and performance review whereby Management can assess actual and projected performance based on data captured in corporate systems and make course corrections as required and appropriate for IFAD's hybrid business model. The first learnings from this management review process are shared in this document.
7. Externally, IFAD invites the Executive Board to follow and oversee this process of continuous improvement through formal and informal consultations. IFAD will provide the Board with written updates on enhanced efficiency and resource management in the context of the Annual Report.

## II. The IFI perspective

### A. Recap: Continuous efficiency management a constant at selected multilateral development banks

8. In response to the request by Member States for an in-depth analysis of administrative efficiency metrics at peer institutions, IFAD reviewed practices at both United Nations organizations and IFIs to present at the informal seminar held in July.
9. To represent the IFI perspective, IFAD selected three multilateral development banks (MDBs) as examples: the World Bank, the Asian Development Bank and the African Development Bank. Three key findings emerged from a review of their most recent publicly available budget documents:<sup>1</sup>
  - (i) **Definitions of efficiency and performance measures vary.** Both the number and types of efficiency performance measures varied among the three selected organizations.<sup>2</sup>
  - (ii) **Measuring, analysing and understanding costs is essential.** All three MDBs were endeavouring to contain costs and expenditure. The World Bank elaborated on the need to analyse costs that are continuously changing, reflecting the evolving nature of its business.
  - (iii) **Managing efficiencies requires targeted initiatives and continuous review.** All three MDBs had identified specific initiatives to generate efficiencies. The World Bank referred to expenditure reviews as key to monitoring and managing efficiencies.

### B. Update: IFI budget indicators focus mainly on costs and cost recovery

10. In a March 2021 survey on budget process and performance indicators, conducted by the New Development Bank (NDB), 21 IFIs submitted 95 budget performance indicators currently in use by their respective organizations. Based on an assessment of their main thrust, IFAD grouped the performance indicators into five categories:
  - (i) **Administrative expenses.** Among the performance indicators, 40 were mainly focused on aspects of administrative expense, of which 22 related to a portfolio of loans, grants or projects and 16 to cost recovery, i.e. the use of revenues or fees to cover administrative expenses.
  - (ii) **Organization and process.** Thirty performance indicators focused mainly on costs and other measures of efficiency or productivity within specific parts or processes of the organization. The most common focus area was on staff.
  - (iii) **Budget utilization, financial return and financial position.** Eleven performance indicators focused on budget utilization; seven on financial returns, such as return on assets and return on equity; five on financial position, such as debt over assets; and two were not categorized.<sup>3</sup>

### C. Update: IFIs use performance indicators to drive strategy and decision-making

11. To supplement the NDB survey, IFAD issued a survey<sup>4</sup> to the IFI network in September, which focused on organizational efficiency and performance management practices. Eighteen organizations responded.

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<sup>1</sup> See appendix III: Reference documents.

<sup>2</sup> See appendix I: MDBs efficiency comparison.

<sup>3</sup> See appendix IV: Methodology and detailed analysis of IFI performance indicators.

<sup>4</sup> See appendix VI: IFAD survey of IFI network.

12. **Strategic alignment of performance indicators.** Among the IFIs, 83 per cent responded that their performance indicators were aligned to strategy and reflected their business model. The remaining 17 per cent responded that they plan to implement such a practice in the near future.
13. **Cascading.** Sixty-seven per cent responded that their performance indicators had been cascaded to relevant parts of the organization, 61 per cent indicated that they use their performance indicators in internal target agreements and 17 per cent plan to implement this practice in the near future. Fifty per cent responded that their performance indicators are reflected in relevant senior managers' individual performance objectives, and 17 per cent plan to implement this practice in the near future.
14. **Corporate performance reviews.** Seventy-eight per cent responded that they conduct corporate performance reviews on a regular basis with sufficient frequency to enable adjustments and course corrections during the year. The same number responded that senior management participate in such reviews, and 72 per cent indicated that the reviews result in decision-making.
15. Qualitative responses to the survey highlighted the importance of support and ownership on the part of senior management, in addition to data governance and alignment of strategy and resource allocation processes.

### **III. The United Nations perspective**

#### **A. Recap: Comparability of costs an enabler of United Nations reform**

16. The 2019 Funding Compact, a key document in United Nations reform, noted that greater transparency will be sought in the United Nations Sustainable Development Group (UNSDG) approach to management of costs, committing UNSDG entities to improving the comparability of cost classifications and definitions. This enables a better-informed dialogue between UNSDG entities and their partners on the true cost of delivering mandates, programmes and projects.
17. The 2020 Quadrennial Comprehensive Policy Review (QCPR) reiterated the request of Member States that the United Nations development system (UNDS) entities analyse and explore options for harmonized cost recovery policies based on common cost classification and methodologies. In this regard, the QCPR noted the good practice established through the common cost recovery policy of the United Nations Development Programme (UNDP), United Nations Population Fund (UNFPA), United Nations Children's Fund (UNICEF) and United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). It invited relevant governing bodies to review evidence-based proposals for updated cost recovery policies from their respective entities.

#### **B. Recap: Harmonized cost classifications enable comparison between selected UNDS organizations**

18. Representing the United Nations perspective, IFAD reviewed the measures and practices of four organizations whose common cost recovery policy has been recognized as good practice: UNDP, UNFPA, UNICEF and UN Women. Three key findings emerged from their most recent and publicly available budget documents:<sup>5</sup>
  - (i) **Harmonized cost classifications enhance transparency and comparability.** While practices for applying the cost classifications vary slightly between organizations, the common cost categories and definitions improve the ability to compare organizations more systematically.

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<sup>5</sup> See appendix III: Reference documents

- (ii) **Scale affects efficiency performance.** The total biennial expenditure for management activities over total biennial expenditure for UNDP and UNICEF was approximately 7 per cent and 6 per cent respectively, compared to approximately 14 per cent and 13 per cent for UNFPA and UN Women. This likely reflects the effect of economies of scale at the two larger organizations.
- (iii) **Funding type matters.** With the exception of UNICEF, the ratio of total biennial expenditure of management activities to total biennial expenditure was significantly higher for regular resources compared to other resources. This may reflect the fact that regular resources often are used in the most fragile situations, resulting in lower levels of efficiency.<sup>6</sup>

### **C. Update: Cost recovery an enabler to inter-agency collaboration**

- 19. As part of the United Nations reform under the Business Innovations Strategic Results Group, four core principles for costing and pricing of services were developed: (i) full cost recovery; (ii) direct and indirect cost recovery; (iii) transparent cost disclosure; and (iv) clear service-level agreements. Reflecting its participatory role in United Nations reform, IFAD is a signatory to the principles.
- 20. IFAD is closely following further developments in cost recovery and cost classification through the United Nations Finance and Budget Network.

## **IV. The IFAD perspective**

### **A. Recap: Opportunities to enhance IFAD transparency, results focus and agility**

- 21. Independent evaluations and external assessments contribute to improving efficiency and effectiveness at IFAD. A review of evaluation and assessment reports<sup>7</sup> that focused on aspects of IFAD's efficiency led to three key findings:
  - (i) **Transparency of costs can be further enhanced.** As an example, the Alvarez & Marsal assessment of 2020 recommends that IFAD "focus on increasing the visibility of the significant effort spent by IFAD resources on projects (much of which is currently "hidden" in administrative costs), which would then facilitate discussions on how best to allocate this cost. Greater visibility would also likely lead to this cost base being better understood and managed, to the benefit of all parties."
  - (ii) **The link between results and resource utilization can be strengthened.** The 2018 evaluation of IFAD's financial architecture recommends that "Complementary contributions and supplementary funds should be treated in the same way ... both should be subject to service charges so as to cover related administrative costs". The 2018 Multilateral Organization Performance Assessment Network (MOPAN) assessment of IFAD found that "While internal systems are capable of tracking costs from activity through to results, this has not yet translated to ongoing analysis and reporting, which does not yet incorporate results-based budgeting: the main results reporting documents (ARRI, RIDE) do not align resource allocation or utilisation / expenditure with results areas."
  - (iii) **More agile management of programme resources can be useful in a continuously changing environment.** As an example, the 2018 MOPAN assessment noted that "There are ongoing concerns about factors which are responsible for procedural delays. [...] These issues are due to various

<sup>6</sup> See appendix II: UNDS efficiency comparison.

<sup>7</sup> IFAD's Institutional Efficiency and Efficiency of IFAD-funded Operations (independent evaluation, 2013); IFAD's Financial Architecture (independent corporate-level evaluation, 2018), International Fund for Agricultural Development (MOPAN assessment, 2018); and Business Process Re-engineering (BPR) Work Area 2 (Alvarez & Marsal report, 2020).

(predominantly external) project related issues across countries including: administrative and procedural challenges while conducting fiduciary activities at project inception, problematic recruitment processes, political interference, compliance with labour legislation and fragile states.”

## **B. Update: IFAD portfolio of projects growing; share in fragile and conflict-affected situations increasing**

22. An internal review of IFAD’s portfolio of active projects between 2016 and 2020 shows growth of approximately 25 per cent, from around US\$6 billion in 2016 to US\$7.5 billion in 2020.<sup>8</sup>
23. During the same period, the number of active projects decreased from 205 to 201, resulting in an increase in the average project size from approximately US\$29 million to US\$37 million, which may reflect increased efficiency at the project level.
24. The distribution of the active project portfolio by country income classification during the period was stable, with an average of 35 per cent in low-income countries, 52 per cent in lower-middle-income countries and 13 per cent in upper-middle-income countries.
25. The share of the active project portfolio in fragile and conflict-affected situations nearly doubled, from 16 per cent in 2016 to 27 per cent in 2020. The fragile and conflict-affected situations classification of Mozambique in 2018 and of Niger and Nigeria in 2020 made a significant contribution to this end.
26. In its 2020 budget document, the World Bank notes that: “Delivering larger lending volumes will result in an expansion of the portfolio with a rising share of new lending in low and lower-middle income countries and fragile states. This expansion will bring opportunities for greater development impact but will result in increased risks, complexity and related cost pressures ... the Bank is expanding its footprint in fragile and small states, where operating is more complex and riskier. The average cost of putting a staff in a fragile country is about 40 percent higher than in non-fragile countries.” A similar development at IFAD further highlights the importance of enhancing transparency and management of costs.

## **C. Update: Moderate increase in IFAD administrative expenses mainly reflecting investments in resource mobilization, legal and risk management functions**

27. An internal review of IFAD’s administrative expenses during the period 2016 to 2020 indicates moderate growth of approximately 10 per cent from around US\$135 million in 2016 to US\$149 million in 2020.
28. The increase is attributable mainly to the organization’s investments in communications and partnerships, and in the legal, risk management and finance functions.
29. To prepare for a separation of budgets based on cost classification, a granular assessment of IFAD’s 2016-2020 administrative expenses was performed. The assessment was informed by the harmonized cost classification framework of UNDP, UNFPA, UNICEF and UN Women. A functional review of IFAD departments and divisions helped identify those activities that could be linked to the framework. An informed assessment was then made at the sub-cost centre level, in ranges of 25 per cent, to identify the share of historical expenses as either direct or indirect.

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<sup>8</sup> The underlying data for the analysis come from IFAD’s Grants and Investment Projects System and have previously been used for annual reports. The data reflect approved project values for projects where project status equals “available for disbursement” and “entry into force”. To identify countries classified as fragile and/or in conflict-affected situations, World Bank classifications were used and applied during the reporting year.

30. **Direct costs are directly linked and traceable to a programme or project and to benefits derived by programme or project beneficiaries.** Examples of direct costs are: (i) cost of missions and travel incurred specifically to carry out or support programme or project activities; (ii) cost of staff and consultants hired for the programme or project; (iii) cost of policy-advisory or technical services (fully costed: staff costs, share of office rent, utilities, communications, supplies, office security); (iv) cost of processing transactional services (finance, administration, procurement, human resources, logistics); (v) equipment, including information technology equipment, maintenance, licences and support for programmes and projects; and (vi) programme or project audit and evaluation fees.
31. **Indirect costs are not directly linked or traceable to programmes or projects, but considered necessary to run an organization, and maintain and improve organizational structures.** Examples of indirect costs are: (i) corporate executive management; (ii) corporate resource mobilization, partnership relations, and corporate advocacy and communications; (iii) corporate accounting and financial management; (iv) institutional legal support; (v) corporate human resources management; (vi) country office, regional or corporate management; and (vii) internal audit and investigation at headquarters and unit level.
32. The granular assessment of IFAD's historical administrative expenses confirmed the findings of the assessment performed for the informal seminar held in July. Approximately one third of the expenses could be classified as indirect and approximately two thirds as direct.

#### **D. Update: IFAD adopting good practice management process with the corporate efficiency and performance review**

33. Based on financial analysis, IFI surveys, internal consultations and standards prescribing management reviews, such as ISO 9001, IFAD reviewed its own institutional efficiency performance indicators, results and targets at the beginning of the fourth quarter of 2021.
34. The review resulted in a decision to further align the annual resource allocation process with the three-year results framework and targets. It was also agreed that IFAD will further explore the use of internal target agreements and alignment of individual performance objectives for relevant managers.

#### **V. The way forward: building on what is in place and good practice**

35. Enhanced efficiency and resource management is about optimizing the use of resources through a better understanding of costs and the activities that drive them. The proposed approach represents a change in how IFAD looks at and manages its business model, based on improved information and management processes.
36. Implementing the three-step proposal is not a new improvement initiative, but rather a continuous process to implement strategy with limited resources. It should contribute to focusing the use of organizational resources and accelerate the implementation of existing initiatives.
37. To avoid adding further bureaucracy and creating a situation where the cost of new efforts outweigh the benefits, the following principles will be applied:
- **Use existing information from corporate systems**, refining and improving content and quality where necessary;
  - **Reduce complexity and fragmentation**, balancing the need for granular information with the time and effort needed to generate it; and



- **Automate and integrate** data generation and extraction for reporting into existing tools and business processes.

### **A. Enhancing transparency and agility**

38. From 2023 onwards, it is proposed that IFAD revise its current budget format to a request for a regular budget to cover planned annual indirect costs and planned annual direct costs. This change will not require an amendment of the Financial Regulations of IFAD.
39. It is also proposed that the budget document be made more concise and linked to the Results Management Framework and results of the Twelfth Replenishment of IFAD's Resources, as reported in the Report on IFAD's Development Effectiveness and Annual Report.<sup>9</sup>
40. Internally, IFAD will refine its planning and resource allocation process, informed by the cost classification framework in accordance with good practice, to reflect the distinction between resources for direct and indirect costs. The process will thus establish the initial pools of direct costs, which can be attributed to projects.
41. IFAD will continue to report on actual expenses in the Annual Report.

### **B. Enhancing results focus**

42. Based on the cost pools established through the planning and resource allocation process, IFAD will attribute direct costs to projects as appropriate, using the cost drivers identified.
43. To use existing information from corporate systems, IFAD will seek to identify cost drivers based on systems-available data. To reduce complexity and fragmentation, IFAD will rely on standard and average costs to attribute direct costs to projects.
44. A cross-functional workshop was conducted in October to assess options for implementation, potential revisions to policies, procedures, enterprise resource planning and associated resource requirements. To further inform options for implementation, IFAD will consult with organizations having experience implementing similar solutions using PeopleSoft, which is IFAD's enterprise resource planning system.

### **C. Enhancing efficiency management**

45. Based on the lessons learned from the first review of efficiency measures and practices, IFAD will improve the review process with each iteration to ensure that it suits the needs of Management and the hybrid business model.
46. It is envisioned that the corporate efficiency and performance review will enhance the organization's capacities to both measure and manage for efficiency and results, which will also facilitate the annual planning process.
47. To enhance efficiency and resource management, methodology is of crucial importance. Accordingly, IFAD will continue to consult with peer institutions and beyond, to explore best practices in corporate efficiency and performance management.

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<sup>9</sup> For an indicative outline of the revised budget format, see appendix V: Indicative outline for revised budget format.

## MDBs efficiency comparison

### *Efficiency at the World Bank*

The World Bank FY20 budget document lists the following performance indicators:

Performance indicator	Reported performance
<b>Bank Budget to Lending Volume Ratio</b> [Total Administrative Budget (BB) per US\$ billion of loans approved (US\$ million)]	The document reflects a trend of decrease for IBRD from 74 in FY03 to 46 in FY20 and the corresponding trend for IDA from 111 to 56. The aggregate trend is from 88 to 51
<b>Bank Budget to Portfolio Volume Ratio</b> [Total Administrative Budget (BB) per US\$ billion portfolio under supervision (US\$ million)]	The document reflects a trend of decrease for IBRD from 14 in FY03 to 10 in FY20 and the corresponding trend for IDA from 24 to 11. The aggregate trend is from 17 to 10.
<b>Bank Budget per Project Approved Ratio</b> [Total Administrative Budget (BB) per lending project approved (FY19 US\$ million)]	The document reflects a trend of decrease for IBRD from 12 in FY03 to 8 in FY20 and the corresponding trend for IDA from 9 to 5. The aggregate trend is from 10 to 6
<b>Bank Budget per Project Supervision Ratio</b> [Total Administrative Budget (BB) per project under supervision (FY19 US\$ million)]	The document reflects an increase for IBRD from 1.6 in FY03 to 2.0 in FY20. IDA shows a trend of moderate decrease for the corresponding period from 1.4 to 1.3. The aggregate trend is from 1.5 to 1.6

### *Efficiency at ADB*

ADB's Corporate Results Framework, 2019–2024 lists the following indicators under the heading "ADB's Organizational Effectiveness" and sub-heading "Organizational Systems and Processes (organizational systems and processes improved)":

Performance indicator	Reported performance
<b>Quality of budget management (%)</b> , [unutilized budget at the end of the year]	The 2018 baseline is 5.4 and 2024 target is 5.0 or less
<b>Procurement contract transactions of \$10 million or more with processing time of 40 days or less (%) (sovereign)</b>	The 2017-2018 baseline is 67 and 2024 target is 80
<b>Representation of women in the international staff category (%)</b>	The 2018 baseline is 36.3 and 2024 target is 40.0
<b>Projects or transactions with sovereign–nonsovereign collaboration (number, cumulative) (sovereign and nonsovereign).</b>	The 2016-2018 baseline is 2 and 2024 target 18

The BUDGET OF THE ASIAN DEVELOPMENT BANK FOR 2020 identifies the following indicator for budget management:

Performance indicator	Reported performance
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<b>ADB Efficiency Compared with Other Institutions</b> [Ratio of Administrative Costs to 2-Year Average Disbursements]	The document reflects a trend of performance of ADB from app. 5.5% in 2010 to app. 5.0% in 2018
<b>Further tracking indicators listed in the budget document</b>	
<b>(i) share of operational expenses for direct operations support</b>	The document reflects a trend of increase from 81.2% in 2014 to a forecast 84.2% in 2019
<b>(ii) internal administrative expenses (IAE) per \$1 million disbursement</b>	The document reflects a trend of decrease from 59.9 in 2014 to a forecast 46.7 in 2019
<b>(iii) IAE per project approved</b>	The document reflects a slight increase from 4,191 in 2014 to a forecast 4,296 in 2019
<b>(iv) IAE per project under administration</b>	The document reflects an increase from 683 in 2014 to a forecast 743 in 2019

#### *Efficiency at AfDB*

The 2020 – 2022 Work programme and Budget Document lists the following measures in the Bank Group Institutional KPIs 2020-2022, under the heading Budget, Income & Expenditure:

<b>Performance indicator</b>	<b>Reported performance</b>
<b>Administrative Budget Implementation Rate (%)</b>	The document reflects a trend from 96 in 2016 to 96 in 2018. The target for 2022 is 98
<b>Capital Budget Implementation Rate (%)</b>	The document reflects a trend from 67 in 2016 to 64 in 2018. The target for 2022 is 65.
<b>Proportion of capital projects exceeding 3 years (%)</b>	The document reflects a trend from 67 in 2016 to 49 in 2018. The target for 2022 is 55
<b>Proportion of Operations Expenses (%)</b>	The document reflects a trend from 44 in 2016 to 60 in 2018. The target for 2022 is 60
<b>Cost to Income ratio ADB Only (%)</b>	The document reflects a trend from 34.51 in 2016 to 45.52 in 2018. The target for 2022 is 47
<b>Loan to Income ratio – Public Sector (%)</b>	The document reflects a trend from 71 in 2016 to 81 in 2018. The target for 2022 is equal to- or more than 100
<b>Loan to Income ratio – Public Sector (%)</b>	The document reflects a trend from 71 in 2016 to 81 in 2018. The target for 2022 is equal to- or more than 100
<b>Total Bank net income before distribution (UA millions)</b>	The document reflects a trend from 120.07 in 2016 to 129 in 2018. The target for 2022 is 228
<b>Total Bank net income before distribution (UA millions)</b>	The document reflects a trend from 120.07 in 2016 to 129 in 2018. The target for 2022 is 228
<b>Administrative costs per UA 1 million disbursed (UA millions)</b>	The document reflects a trend from 72 in 2016 to 90 in 2018. The target for 2022 is less than 90

## UNDS efficiency comparison

### Budget expenditure in USD millions

Cost-classification category	UNDP, 2018-2019 actual (1)			UNICEF, 2018-2021 revised (4)		
	Regular resources (2)	Other Resources (3)	Total	Regular resources	Other Resources (5)	Total
Development activities	857.3	8 459.7	<b>9 317.0</b>	4 573.4	18 426.6	<b>23 000.0</b>
UN Development coordination activities	99.5		<b>99.5</b>	35.1	23.0	<b>58.1</b>
Management activities	303.5	427.0	<b>730.5</b>	376.1	1 250.8	<b>1 626.9</b>
Special purpose activities	22.9	104.8	<b>127.7</b>	975.9	255.5	<b>1 231.4</b>
Posts to be transferred to UN regular budget			-			-
<b>Total expenditure</b>	<b>1 283.2</b>	<b>8 991.5</b>	<b>10 274.7</b>	<b>5 960.5</b>	<b>19 955.9</b>	<b>25 916.4</b>
<i>Example efficiency ratio 1: Management activities/Total expenditure</i>	23.65%	4.75%	<b>7.11%</b>	6.31%	6.27%	<b>6.28%</b>
<i>Example efficiency ratio 2: Development activities/Total expenditure</i>	66.81%	94.09%	<b>90.68%</b>	76.73%	92.34%	<b>88.75%</b>

Cost-classification category	UNFPA, 2018-2021 midterm review (6)			UN WOMEN, 2018-2019 estimates (7)		
	Regular resources	Other Resources (5)	Total	Regular resources	Other Resources (5)	Total
Development activities	1 064.5	2 357.2	<b>3 421.7</b>	274.4	519.9	<b>794.3</b>
UN Development coordination activities	16.3		<b>16.3</b>	27.2		<b>27.2</b>
Management activities	384.3	169.2	<b>553.5</b>	96.4	25.1	<b>121.5</b>
Special purpose activities	20.0		<b>20.0</b>	3.0		<b>3.0</b>
Posts to be transferred to UN regular budget			-	2.0		<b>2.0</b>
<b>Total expenditure</b>	<b>1 485.1</b>	<b>2 526.4</b>	<b>4 011.5</b>	<b>403.0</b>	<b>545.0</b>	<b>948.0</b>
<i>Example efficiency ratio 1: Management activities/Total expenditure</i>	25.88%	6.70%	<b>13.80%</b>	23.92%	4.61%	<b>12.82%</b>
<i>Example efficiency ratio 2: Development activities/Total expenditure</i>	71.68%	93.30%	<b>85.30%</b>	68.09%	95.39%	<b>83.79%</b>

(1) Midterm review of the integrated resources plan and integrated budget, 2018-2021, (Annexes to DP/2020/09)

(2) Regular resources: Regular resources + Regular (other income utilization resources)

(3) Other resources: Bilateral + multilateral partner resources + Government cost sharing + Cost recovery

(4) Report on the midterm review of the UNICEF integrated budget, 2018-2021 (E/ICEF/2020/AB/L.5)□

(5) Other resources: Programmes + Cost recovery

(6) UNITED NATIONS POPULATION FUND Midterm review of the UNFPA integrated budget, 2018-2021 (DP/FPA/2020/5)□

(7) Integrated budget estimates for the United Nations Entity for Gender Equality and the Empowerment of Women for the biennium 2018-2019 (UNW/2017/7)□

## Reference documents

### A. Context and reform

[GA resolution on the Addis Ababa Action Agenda of the Third International Conference on Financing for Development \(Addis Ababa Action Agenda\) \(A/RES/69/313\)](#)

[Repositioning the United Nations development system to deliver on the 2030 Agenda: our promise for dignity, prosperity and peace on a healthy planet](#)

[Funding Compact](#)

[Financing for sustainable development, Note by the Secretary-General \(E/FFDF/2020/2\)](#)

[OECD Multilateral Development Finance 2020](#)

[Quadrennial comprehensive policy review of operational activities for development of the United Nations system](#)

[Joint comprehensive proposal on the cost-recovery policy \(DP/FPA-ICEF-UNW/2020/1\)](#)

### B. IFI budget documents

[FY20 World Bank Budget](#)

[BUDGET OF THE ASIAN DEVELOPMENT BANK FOR 2020](#)

[ADB Corporate Results Framework, 2019–2024](#)

[2020 – 2022 Work programme and Budget Document \(AfDB\)](#)

### C. UNDS organization budget documents

[Midterm review of the UNFPA integrated budget, 2018-2021](#)

[Midterm review of the UNICEF integrated budget, 2018–2021](#)

[Midterm review of the integrated resources plan and integrated budget, 2018-2021 \(UNDP\)](#)

[Integrated budget estimates for the United Nations Entity for Gender Equality and the Empowerment of Women for the biennium 2018-2019](#)

### D. IFAD documents

[IFAD's 2021 results-based programme of work and regular and capital budgets, the IOE results-based work programme and budget for 2021 and indicative plan for 2022-2023, and the HIPC and PBAS progress reports](#)

## Methodology and detailed analysis of IFI performance indicators

### Background

In March 2021, the New Development Bank (NDB) initiated a survey to learn about the budgeting process and use of budget performance indicators at members of the IFI Planning, Budgeting and Performance Management Network, which is an instrument for collaboration among International Financial Institutions (IFIs). The survey consisted of two parts: 1) an online survey and 2) an Excel spreadsheet where respondents were requested to enter i) budget performance indicator, ii) method of calculation and iii) benchmark and/or target.

Out of 23 respondents, NDB received responses from all on the online survey and 21 responses with a total of 95 entries for budget performance indicators. Summary and detailed responses were shared within the network.

The 21 respondents were AfDB, AIIB, AsDB, BSTD, CAF, CDB, CEB, EBRD, EIB, ESM, IADB, IDBI, IFAD, IFC, IMF, ISDB, NDB, NIB, OECD, OPEC and WB.

### Performance indicator classification methodology

To enable comparison, IFAD has classified the budget performance indicators based on an assessment of their main thrust, informed by the performance indicator name and calculation method. Each budget performance indicator was assigned to a main category which represents its focus area, and a sub-category to provide further detail.

### Performance indicator analysis

The below tables provide a detailed overview of the number of performance indicators by main categories and sub-categories. Two performance indicators were not classified.

Main category	Main category description	Sub-category	Sub-category description	Number of performance indicators
Admin expense	The main thrust refers to measurement of aspects of administrative expense.	Assets	Refers to administrative expense in relation to assets.	1
		Cost-recovery	Refers to organizations' ability to cover administrative expenses from various sources of revenue. The term cost-recovery is frequently used in the UN. At IFIs, cost-to-revenue is a frequently used term. In substance, there is significant overlap between cost-recovery and cost-to-revenue. Several of the budget performance indicators assigned to this category referred to cost-to-revenue. The term cost-recovery was chosen to limit terminology to one	16

			category and because the descriptions in the method of calculation made reference to administrative expense.	
		External funds	Refers to administrative expense in relation to external funds.	1
		Portfolio	Refers to administrative expense in relation to loans, grants and projects; individual or portfolio; approved, active or disbursed; annual or year-to-date.	22

Main category	Main category description	Sub-category	Sub-category description	Number of performance indicators
Budget utilization	The main thrust refers to measurement of organizations' implementation of budgets, frequently by comparing budgeted to actual expenses.	Annual budget	Refers to utilization of annual budgets, mainly administrative.	9
		Capital budget	Refers to utilization of capital budgets, which may be multiyear.	2

Main category	Main category description	Sub-category	Sub-category description	Number of performance indicators
Financial position	The main thrust refers to measurement of financial position, based in part or fully on information in organizations' balance sheets.	Capital resources	Refers to capital resources and in relation to capital requirements and capital resources in relation to assets.	2
		Leverage	Refers to assets in relation to debt and equity.	2
		NPL	Refers to non-performing loans in relation to total outstanding loans.	1

Main category	Main category description	Sub-category	Sub-category description	Number of performance indicators
Financial return	The main thrust refers to measurement of financial returns, based in part or fully on information in organizations' income statements.	Revenue margin	Refers to revenue in relation to net income and operating income.	2
		ROA	Refers to return on assets.	2
		ROC	Refers to return on capital.	1
		ROE	Refers to return on equity.	2

Main category	Main category description	Sub-category	Sub-category description	Number of performance indicators
Organization & process	The main thrust refers to measurement of costs or process metrics associated with specific parts, functions, locations or processes of an organization	Assets	Refers to replacement and costs assets.	1
		Buildings & facilities	Refers to costs of building, facilities and at times utilities.	3
		Corporate services	Refers to costs of corporate services.	1
		Country & global engagements	Refers to costs of engagements at various levels of the organization.	2
		General savings	Refers to cost savings and avoidance from economies of scale and various cost optimization initiatives.	1
		IT	Refers to costs of information technology.	2
		Operations	Refers to budgets and cost of operations in relation to total budgets and costs.	3
		Procurement	Refers to cost avoidance from procurement.	1
		Project management	Refers to costs and processes associated with aspects of project management.	2
		Staff	Refers to budgets, costs, processes and productivity associated with staff.	8
		Travel	Refers to costs associated with travel.	2
		Treasury	Refers to return from treasury investments.	1
		Voluntary contributions	Refers to voluntary contributions, accepted and received.	3



## Indicative outline for revised budget format

Current format	Revised format
<p><b>Part one – IFAD’s results-based programme of work and regular, capital and special expenditure budgets</b></p> <p><b>I. Context</b></p> <p>Global topics that impact IFAD at large</p> <p><b>II. Current perspective</b></p> <ul style="list-style-type: none"> <li>A) Update on programme of loans and grants</li> <li>B) Prior year and current year net regular budget usage</li> <li>C) Prior year carry-forward allocation</li> </ul> <p><b>III. Gender sensitivity of IFAD’s loans and regular budget</b></p> <p><b>IV. Budget year programme of work</b></p> <p><b>V. Budget year net regular budget</b></p> <ul style="list-style-type: none"> <li>A) Introduction</li> <li>B) Budget process</li> <li>C) Assumptions</li> <li>D) Proposed staffing level</li> <li>E) Cost drivers</li> <li>F) Net regular budget proposal</li> <li>G) Gross budget proposal</li> <li>H) Efficiency ratios</li> </ul> <p><b>VI. Capital budget for budget year</b></p>	<p><b>Part one – IFAD’s results-based programme of work and regular capital and special expenditure budgets</b></p> <p><b>I. Context</b></p> <p>Global topics that impact IFAD at large</p> <p><b>II. Current perspective</b></p> <ul style="list-style-type: none"> <li>A) Update on programme of loans and grants with link to Results Management Framework (RMF)</li> <li>B) Prior year and current year net regular budget usage: management resources to cover indirect costs and programmatic resources to cover direct costs</li> <li>C) C. Prior year carry-forward allocation</li> </ul> <p><b>III. Budget year programme of work</b></p> <ul style="list-style-type: none"> <li>A) Planned outputs in relation to RMF targets</li> <li>B) Strategic Priorities</li> </ul> <p><b>IV. Budget year net regular budget</b></p> <ul style="list-style-type: none"> <li>A) Budget process and assumptions</li> <li>B) Cost drivers and proposed staffing level</li> <li>C) Net regular budget proposals: management resources to cover indirect costs and programmatic resources to cover direct costs</li> <li>D) Gross budget proposal</li> <li>E) Annual targets and resourcing</li> </ul> <p><b>V. Capital budget for budget year</b></p>

## IFAD survey to IFI network

To learn more about corporate performance and efficiency management, IFAD launched a survey to the IFI Network in September, 2021. The below is copy of the survey.

### Intro

IFAD is in the process of establishing a quarterly efficiency and performance review. As a follow-up to the New Development Bank (NDB) survey on budget performance indicators, IFAD would like to ask members of the Network about organizational efficiency and performance management practices. The survey should take approximately 10 minutes to complete and responses will be shared in aggregate and detailed format with the Network.

### Questions

#### 1) Organizational performance, direction, alignment, responsibilities and accountabilities

A focused set of KPIs can be useful to drive organizational efficiency and performance. They can also help drive organizational direction, alignment and clarify responsibilities and accountabilities. To achieve this effect, an organization's KPIs and targets (individually or collectively) should be:

- Aligned to the organization's strategy (*"Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree"*)
- Reflect the organization's business model (*"Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree"*)
- Cascaded across relevant parts of the organization (*"Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree"*)
- Reflected in relevant Senior Managers' individual performance objectives (*"Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree"*)
- Used in internal target agreements (*"Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree"*)
- Other – please specify: (text box)

#### 2) Corporate performance and efficiency reviews

Corporate reviews of efficiency and performance is good practice to monitor implementation of strategy and make adjustments. For corporate efficiency and performance reviews to be effective, they should:

- Be conducted on a regular basis with sufficient frequency to enable adjustments and course corrections during the year (*"Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree"*)
- Include the participation of Senior Management (*"Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to*

- implement this practice in the near future*", "Agree and my organization has implemented this practice", "Do not agree")
- Include the participation of Managers representing both the organization's lead- and support functions ("Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree")
  - Be informed by both actual and projected performance on relevant KPIs ("Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree")
  - Result in decision-making ("Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree")
  - Have a follow-up mechanism to ensure implementation of decisions ("Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree")
  - Other – please specify: (text box)

### **3) Reporting and communication**

To ensure transparency and that relevant stakeholders are up-to-date, it is important that performance on KPIs is communicated beyond the organization's management team. To enhance transparency and communication, performance on KPIs should be:

- Communicated to organization internal stakeholders, e.g. through performance messages, newsletters, team meetings, town hall meetings and internally available dashboards ("Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree")
- Communicated to organization external stakeholders, e.g. through annual reports, bilateral consultations or externally available dashboards ("Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree")
- Based on data in corporate systems and, in the case of dashboards, updated on a daily basis ("Agree but my organization has not [yet] implemented this practice", "Agree and my organization plans to implement this practice in the near future", "Agree and my organization has implemented this practice", "Do not agree")
- Other – please specify: (text box)

### **4) Organizational efficiency and performance management good practice examples**

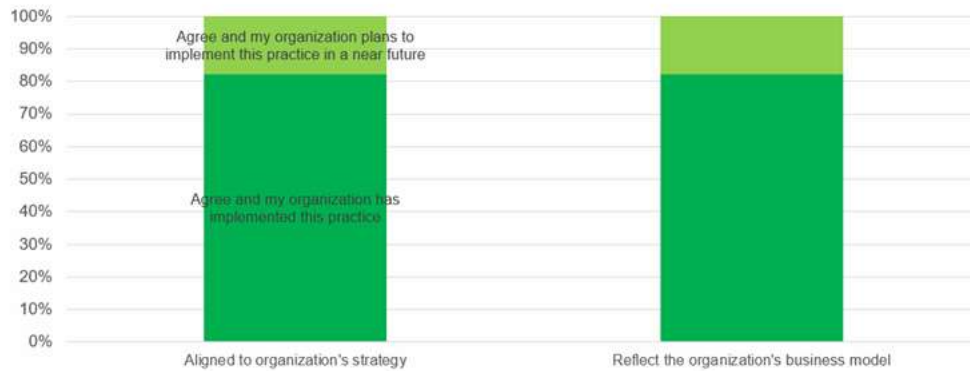
With regards to good practice examples of organizational efficiency and performance management:

- Please share any good practice or tips from your organization which you think could be useful to other members of the Network (*Response option: Free text entry box*)
- Please share any challenges your organization has faced or areas where you would like to learn more about practices at other members of the Network (*Response option: Free text entry box*)

Key findings of the survey were used to inform management decisions on how to enhance IFAD’s practices for efficiency and corporate performance management:

## IFIs ALIGN PERFORMANCE INDICATORS TO STRATEGY AND ENSURE THEY REFLECT THE BUSINESS MODEL

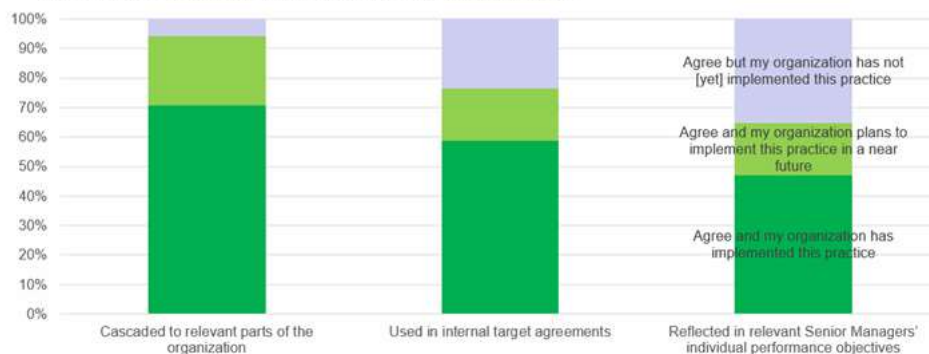
Responses to survey statement: “To drive organizational efficiency and performance, indicators and targets should be:”



\* Based on survey data collected by IFAD in September, 2021. Percentages reflect responses from 17 participating organizations.

## IFIs CASCADE INDICATORS AND TARGETS TO DRIVE ORGANIZATIONAL ALIGNMENT

Responses to survey statement: “To help help drive organizational direction, alignment and clarify responsibilities and accountabilities, indicators and targets should be:”



\* Based on survey data collected by IFAD in September, 2021. Percentages reflect responses from 17 participating organizations.

## IFIs REVIEW EFFICIENCY AND PERFORMANCE ON A REGULAR BASIS IN ORDER TO INFORM DECISION-MAKING



\* Based on survey data collected by IFAD in September, 2021. Percentages reflect responses from 17 participating organizations.