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DETAILED DESIGN OF THE PROCESS RE-ENGINEERING PROGRAMME



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TERMINOLOGY

Business-process architecture: A concept that defines the desired structure of an organization in terms of its business processes and their interrelationships.

Change management: The process of managing necessary changes in human behavior, performance, corporate culture and organizational structure so that the organization is empowered to use new work systems.

Engineered processes: Processes that currently do not exist in IFAD. These processes were defined as: impact management, knowledge management, partnership management, product development, and implementation.

Enterprise resource planning (ERP): A software solution that takes a process view of an organization and integrates all applications to operate with one common database.

Plan of Action (2000-2002): Annex I of *Partnerships for Eradicating Rural Poverty: Report of the Consultation to Review the Adequacy of the Resources Available to IFAD*, finalized at the Seventh Session of the Consultation, and approved on 31 July 2000 by the Governing Council through a vote by correspondence.

Information technology: The combination of computing, networking and telecommunications technologies used for information management purposes. In the context of this document, IT also includes information systems.

Business process: Organizational mechanism that exists to satisfy one or a collection of stakeholders' expectations of the organization.

Legacy systems: Information systems designed within an obsolete data and processing architecture and/or implemented with obsolete technology.

Re-engineered processes: Processes that already exist in IFAD for current functions. These processes were defined as: human resources, strategy and finance, support services and procurement, and information technology.

ACRONYMS

ERP	Enterprise Resource Planning
FIS	Financial Information System
HR	Human Resources
HRMS	Human Resources Management Strategy
IS	Information System
IT	Information Technology
KM	Knowledge Management
LGS	Loans and Grants System
OE	Office of Evaluation and Studies
PD	Product Development
PM	Partnership Management
PMD	Programme Management Department
PMU	Programme Management Unit
PPMS	Project and Portfolio Management System
PRP	Process Re-Engineering Programme
SF	Strategy and Finance
SS	Support Services



EXECUTIVE SUMMARY

1. Following the recommendation of the Sixty-Eighth Session of the Executive Board in December 1999, the Governing Council, at its Twenty-Third Session in February 2000, approved a Capital Budget of IFAD for a Process Re-Engineering Programme (PRP) of up to USD 26.0 million in the financial years 2000-2005. This included the authorization to allocate no more than 5% of the total budget for the detailed design phase. Authority was delegated to the Executive Board to approve subsequent tranches. The objectives of the design phase were to establish an operational plan for implementation and to provide the basis for Executive Board approval in order to proceed to the implementation phase.

2. The objective of the PRP is to further enhance IFAD's impact in addressing rural poverty and its role as a knowledge organization. Following the appointment of a Programme Management Unit reporting to the Vice-President, as programme sponsor, staff training was initiated in change management and business-process definition. In parallel, Deloitte Consulting was recruited, following established procurement guidelines, to assist in the detailed design work. Staff working groups were established to assist in the definition and redesign of processes.

3. An overall business-process architecture has been developed that overlays the processes being reviewed onto the existing IFAD business structure. Processes have been divided into those being re-engineered and those being engineered. Processes to be re-engineered include human resources, strategy and finance, information technology (IT) and support services. These reflect functions and activities that IFAD already performs. New processes include working practices that need to be developed, integrated and implemented across the organization. These processes, which include knowledge, partnership and impact management and product development, reflect the wider expectations that a variety of 'stakeholders' hold about the role of IFAD. Together, all the processes identified reflect the major themes expressed in the corporate scorecard and in the Plan of Action (2000-2002).

4. Notwithstanding the relevance of the corporate scorecard and action plan, the current status of IT in IFAD has also been a major factor in determining the scope of the PRP. IFAD has various software applications that are not integrated and several 'legacy' systems that need to be replaced. The extent and nature of the IT changes envisaged has meant that IFAD management has had to review several different IT options. A 'low' IT option will bring the necessary automation to support human resources, strategy and finance, several support-service activities and knowledge management. These IT interventions will provide the necessary support to the overall process development requirements and would constitute the first phase of PRP implementation. Subsequent phases, which would require similar approval by the Executive Board, include the impact-management process, partnership and new products, together with their required IT support/upgrades.

5. The total cost of the PRP for the first phase has been estimated at USD 15.5 million for the period 2001-2003 (including USD 1.3 million for a voluntary staff separation package). For 2001, the overall estimated costs are USD 8.1 million, the majority of which, USD 5.7 million or 70% are IT-related investment costs. The first phase of the programme includes the costs related to the four processes to be re-engineered (human resources, strategy and finance, support services and procurement, and IT) and the knowledge-management process. The final elaboration and integration of the remaining processes within the PRP framework will be completed during 2001 and will remain within the financial limits established by the Governing Council. The detailed design phase, after a thorough review and analysis, has indicated that it will not be possible to generate a level of savings sufficient to both amortize the capital budget and redeploy resources to operations. However, the resources made available by net savings (beginning in 2001), given accurate benefit monitoring, form the basis for financing additional resource requirements related to re-engineering and enhancing capacity to implement the action plan.



DETAILED DESIGN OF THE PROCESS RE-ENGINEERING PROGRAMME

I. BACKGROUND

A. Re-Engineering in IFAD to Date

1. The progressive re-engineering of IFAD since 1993 has resulted in important changes in IFAD's work processes, for example in the project cycle and documents management. These changes, in part, enabled the Fund to cut costs and keep the administrative budget at the same, real level for over eight years. Re-engineering also resulted in a number of information technology (IT) initiatives that provide support to specific areas. The Project and Portfolio Management System (PPMS) provides partial support to the project cycle; the Documents and Records Management Systems support the Documents Centre; and the PeopleSoft general ledger and accounts payable modules under the Financial Information System (FIS) support the accounting process.

2. In 1999 the Human Resources Management Strategy (HRMS) team identified a substantial scope for further streamlining of the human resources (HR) support process and the need to support the HR management area with IT tools. These were part of the overall findings presented to the Executive Board in document EB 99/67/R.12.

3. The cited initiatives were undertaken in the period 1994-1999, and not only were they funded within the limits imposed by IFAD's zero-real-growth administrative budget policy, but they have been instrumental in achieving and maintaining that policy. After six years, however, the effect of these initiatives reached a plateau. In late 1999, therefore, an institution-wide feasibility study defined an optimized operational structure and determined corporate priorities for investment in the necessary process and IT support. The findings proposed changes in the operation of IFAD processes, and in the management of information and knowledge within the organization. A comprehensive five-year Process and IT Support Programme was presented to the Executive Board in December 1999 in document EB 99/68/R.8. In recognizing the importance to the Fund of continuing its re-engineering exercise, the Executive Board perceived the proposed five-year Process and IT Support Programme as a logical extension. The capital-expenditure budget of USD 26.0 million to finance the programme in fiscal years 2000-2005 was approved by the Governing Council at its Twenty-Third Session in February 2000, and authority was delegated to the Executive Board to approve annual expenditures within the programme's ceiling.

B. Detailed Design Phase

4. **Objectives of the programme.** The objective of the Process Re-Engineering Programme (PRP) is to intensify IFAD's impact in addressing rural poverty and its role as a knowledge organization. It will help develop operational structures in IFAD that reflect both effectiveness and efficiency gains in its basic processes. The PRP will look at all processes in an integrated manner. The objectives of the detailed design phase are to establish an operational plan for implementation and to provide the basis for Executive Board approval to proceed to the implementation phase. The underlying strategy is to make processes more efficient and allocate resources to those activities in line with the corporate strategy in order to create an organization that meets the needs and requirements of all stakeholders.

5. **Programme start-up.** To launch the PRP and ensure its successful implementation, a Programme Management Unit (PMU) was set up with three full-time staff members reporting to the Vice-President as the programme sponsor. Following the recommendations of the 1999 feasibility study, a request for proposals was sent to eleven major consulting companies in February 2000 to begin selection of the consulting firm that would assist IFAD in carrying out the design phase. A vendors' conference was held in March to allow firms participating in the contract bidding to learn



more about IFAD and the PRP. This was followed by a due diligence/discovery visit by the shortlisted firms in April. The selection process, which was conducted by a panel of IFAD staff in accordance with IFAD's procurement guidelines, ended in May with the awarding of the contract to Deloitte Consulting.

6. **Management and staff training.** The design phase began with the training of over 100 staff members in change management and business-process definition, including senior and middle-management. This training was carried out by the Cranfield School of Management (United Kingdom). In addition, a change-management team was put in place to create awareness of the risks and success factors and provide channels for information, communication and participation.

7. The training was part of the preparation to enable staff to work under the PRP, with its overall objective being to enable staff to gain a better understanding of the role processes play in support of the organization's strategy and objectives. This includes understanding the organizational and cultural implications of process re-engineering, the structural-alignment issues involved and the need to reach consensus on the degree and scope of change. Issues covered included: (a) reviewing the different definitions of process re-engineering; (b) balancing of function and processes; (c) understanding the degree and scope of change; and (d) applying the approach.

8. **Staff and management involvement.** Eight working groups were established, composed of staff, both volunteers and appointees from all departments. The working groups had a central role, with the facilitation of the consultants, in ensuring staff participation in the definition and redesign of processes and subprocesses.

9. The groups concentrated on areas identified in the training workshops with senior management, analysing the way in which IFAD works, making concrete recommendations for improvements and identifying a 'to-be' process. An additional group, consisting of staff from both the Project Management Department (PMD) and the Office of Evaluation and Studies (OE), developed recommendations to strengthen impact by improving project cycle activities and methodologies.

10. The working groups also identified 'quick hits' – changes in processes that can be implemented quickly and result in immediate improvements in work practices and performance. Quick hits approved by senior management in August 2000 included: a pilot phase for flexible hours and teleworking; application of lump-sum contracts for consultants; revision of the Individual Performance System (IPS); introduction of 'special service agreements' (contracts for the services of temporary staff in the field).

11. Regular issues of the PRP newsletter, *re-engineering news*, were circulated to staff, and an IFAD Intranet website was opened that included the minutes of meetings of the PRP Steering Committee and the comments of the internal auditor. Two events were organized to present the working groups' contributions, one in July for staff, allowing interaction and open discussion of the work in progress, and one for the Executive Board in September 2000 to present the working groups' contributions and an overview of the PRP activities to date.

12. **Change management.** In April 2000 a re-engineering readiness assessment was carried out by Deloitte Consulting in order to assess IFAD's capacity to change and whether the organization was positioned to initiate a successful re-engineering initiative. The results of the assessment (based on interviews and a questionnaire) showed that, parallel with strong motivating factors for undergoing a new re-engineering exercise, significant barriers to a successful re-engineering initiative did exist. These are highlighted in the discussion of lessons learned in paragraph 17.



13. Despite change-management efforts and training, some of these barriers continue to exist; other factors such as staff involvement have been improved. At this stage of the programme, success now depends on careful risk management of these barriers during implementation and a continued change-management programme to address them.

C. Internal Audit Involvement in the PRP

14. The Office of Internal Audit has been continuously involved in the PRP design phase by providing: (a) an independent review of the design phase (October 2000) and (b) timely inputs into the definition of new processes.

15. The main focus of their review work was to ensure that the weaknesses identified through independent audits were considered and addressed by the group. The secondary focus was on the control aspects and the efficiency and effectiveness of the processes being developed. Internal Audit also provided comments on other aspects of the design phase that could involve risks to the overall achievement of its objectives. To ensure maximum transparency with staff, the internal audits on the PRP were shared with all staff via the Intranet.

D. Lessons Learned

16. Within this overall programme there was a clear need to ensure that the lessons drawn from earlier re-engineering efforts were taken into account. These lessons included the need to ensure that changes in work processes preceded investment in IT and that appropriate change-management mechanisms were put in place. Proper communication to all stakeholders of the need for change and how it will affect individuals in the organization is essential.

17. Some of the lessons learned during the present design phase that could be applied to implementation are:

- (a) Management is the final catalyst of change. Consultants can only support internal change-management issues by creating awareness of the risk and success factors for PRP implementation, facilitating communication and participation, designing and facilitating workshops and indicating the way to success. It is IFAD's management and staff members that must become the real proponents for change and be willing to take the necessary steps and decisions that lead to cultural innovation.
- (b) Risk management: the timely identification of programme risks that may result from human behavior or traditional barriers in culture must be clearly monitored throughout the programme.
- (c) Alignment of senior management on common objectives: all the experts define this as the greatest factor for success and yet it is often the hardest to ensure. It is vital that senior management are aligned on the objectives and scope of the PRP and become a role model for the behaviour expected of employees.
- (d) Participation of staff takes time and effort, but it is key to the commitment of stakeholders, whose support is critical to the success of the programme. Thus working groups composed of IFAD staff and emphasis on communicating often and candidly with staff are both essential.
- (e) Anchoring change in the culture: there is a need to develop staff that contribute to implementing the changed vision and articulate the connections between new behaviours and organizational success.



II. OVERALL BUSINESS-PROCESS ARCHITECTURE

18. The definition and analysis of the processes that constitute IFAD were initiated during the feasibility study and have been further developed during the detailed design phase. Processes are organizational mechanisms that exist to satisfy one or a collection of stakeholders' expectations of the organization. IFAD's principle stakeholders include beneficiaries, recipient governments, civil society and donors. Other important groups include the private sector and the media. The processes targeted under the design phase reflect those processes within IFAD that need to be *re-engineered* and those processes, currently not yet fully operational, that meet the expectations of stakeholders and need to be *engineered*.

- *Re-engineering of existing processes.* Analyse and redesign existing processes in order to improve effectiveness over current levels and establish proper interaction with the newly identified processes and subprocesses. These processes were defined as: human resources (HR), strategy and finance (SF), support services (SS) and procurement, and IT.
- *New process engineering.* Design processes and subprocesses for activities that do not currently exist, but that are identified by IFAD and its stakeholders. These processes have been defined as: impact management, knowledge management (KM), partnership management (PM), product development (PD) and implementation.

19. This analysis facilitated the identification of those processes that directly influence the fulfilment of stakeholder expectations: the 'competitive' and 'transforming' processes and those processes that 'underpin' those expectations. An additional activity has been included in the processes to be re-engineered that will provide immediate recommendations/solutions to recognized problems of the Financial Information System (FIS II) and the Loans and Grants System (LGS).

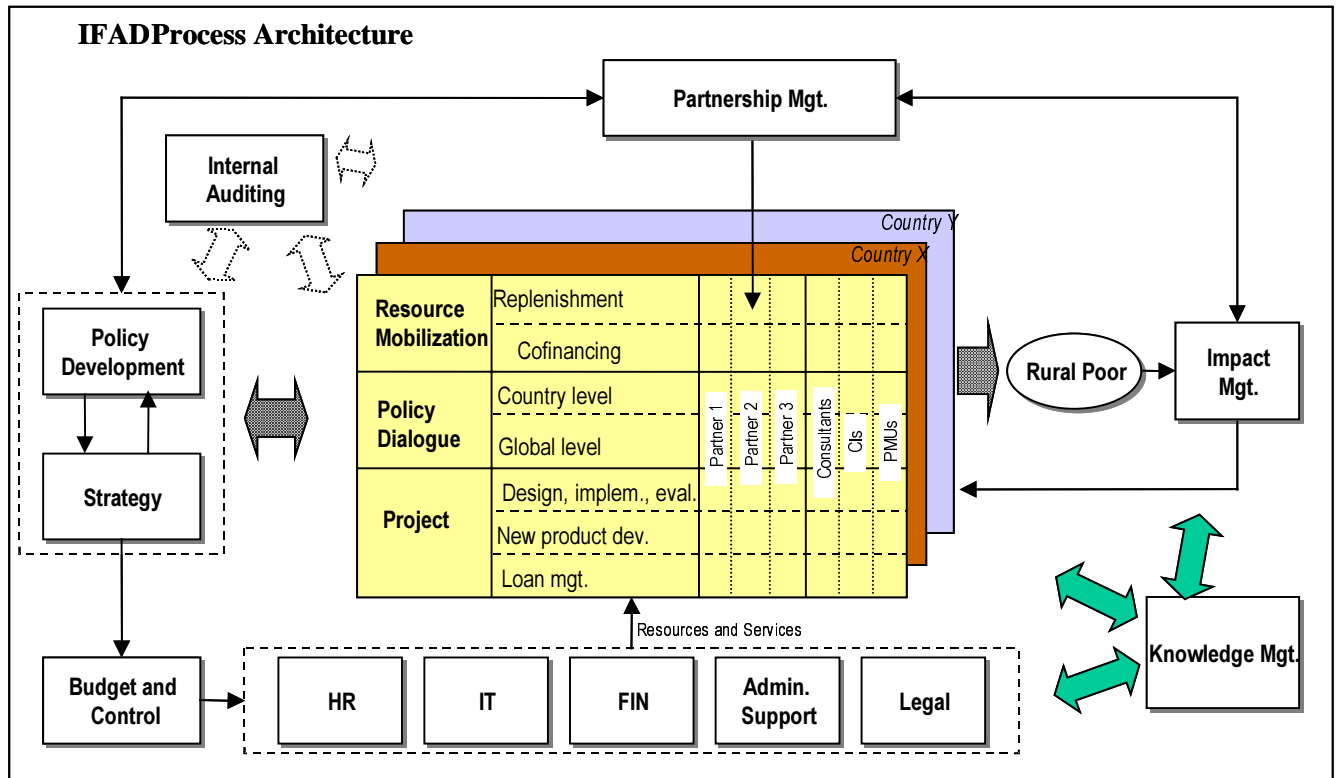
20. These processes have been overlaid onto the existing IFAD business structure to give the process architecture shown in the diagramme following paragraph 22. This architecture revolves around three main themes: resource mobilization, policy dialogue and the project cycle. All of these are impact oriented. They receive 'direction' from policy development and strategy formulation and resources and services from HR, IT, administration, financial and legal processes. The architecture is affected, as a whole, by the partnership and KM processes and is responsive to geographical dimensions that affect all processes and partnership relations. Both PM and KM are important components of all IFAD processes and link them both internally and externally. Finally, the architecture can be viewed over time: staff and resource allocations throughout the processes can change with time in response to internal/external influences, for example strategic focus, lending volume or the replenishment cycle.

21. The relationship between these processes and the strategic directions of IFAD has been identified and developed by examining both the corporate scorecard and action plan and cross-referencing each of the processes with the main features of these strategic 'drivers'.

III. INFORMATION TECHNOLOGY – INSTITUTIONAL-LEVEL ASSESSMENT

22. An important driver of the re-engineering process has been the need to develop IT and information systems (IS) in IFAD. Improved IS are needed to reach the following goals:

- improve the efficiency of internal business processes;
- improve the efficiency of project implementation;
- increase information sharing and KM; and
- support the increasing number of relationships between internal staff and external partners and consultants.



23. A review of IFAD’s IT organization and processes was carried out in the PRP design phase. The review considered the adequacy of the present technology, data and application architecture and the skills set of the present IT organization.

24. IFAD’s IT can be structured according to four key components:

- *application architecture* (software and processes required to support business functions);
- *data architecture* (data to be utilized by the applications for transaction processing and business decisions);
- *technology architecture* (hardware, system software and communications to operate the applications and store/retrieve data); and
- *organizational profile* (people and delivery mechanisms to ensure that the technology, applications and data components operate cohesively and correctly).

25. The results of the review are summarized below:

- *Application assessment.* While IFAD’s systems allow it to function at present, they will not be sufficient to support an active and growing business. The current functional orientation of IFAD involves different software applications that are mostly not integrated. As a result, there is a loss of efficiency, risk of errors in data transmission and uncoordinated information. Proper integrated systems architecture will automate manual processes, eliminate duplication of input and controls and provide a single source of information across the organization.



- *Data assessment.* IFAD's data are managed on a piecemeal basis, which results in operational inefficiencies. When data and systems are not integrated, the quality of information is low and manual intervention is needed to reconcile data and produce coherent reports. Moreover, data analysis and management controls are not easily achieved.
- *Technology assessment.* IFAD has partially implemented a distributed technology architecture in a client/server environment with graphical user interfaces. The evolution to a multi-tier architecture and browser-based user interface, partially introduced, is to be expanded. Security features are also needed to manage technology-related risks, including fault-tolerant systems and disaster-recovery planning.
- *Organizational assessment.* IFAD needs to assign system ownership to the users and to implement a strong IS function that balances control with responsiveness. Organizational issues include: training and skills mix in relation to the new system architecture, organizational structure, communication and distribution of organizational roles/responsibilities between the IT organization and end users.

26. As a result of this review, and noting that the anticipated scale of IT costs cannot be met under the administrative budget, three separate IT options/solutions were prepared and considered during the design phase. The 'low' option will bring the necessary automation for support services (HR, finance) and LGS through an enterprise resource planning (ERP) system, i.e., PeopleSoft, and allow improved internal business functions and a web-based connection with consultants and cooperating institutions. A basic facility to support KM has been added to this option. The 'medium' package provides the additional capability required to support PM and impact management and to further develop KM capability in order to deliver extra savings from improved processes. Finally, the 'high' option would develop the institutional Management Information System (including data warehousing), update the existing PPMS system and develop the web connections with projects and other partners.

27. Following internal review, IFAD management decided to follow a graduated approach to IT development and process implementation, recognizing that while there is much work to be carried out in this area, there is a limit to IFAD's implementation capacity. Thus the approach adopted is initially for the 'low' IT option, which will bring savings from improved efficiency in support services and financial management, including loan management, together with the necessary IT base to develop IFAD's KM capability. It should be noted that this option is the minimum necessary to bring IFAD systems up to date, as no major development work has been carried out in recent years. Subsequent IT development will support the new processes being engineered (e.g., partnership) and will build on the experience of the initial IT implementation.

IV. DETAILS OF PROCESSES TO BE RE-ENGINEERED AND ENGINEERED

A. Rationale for Process Prioritization – Phase I

28. The capital-expenditure budget paper presented to the Sixty-Eighth Session of the Executive Board suggested that the programme be carried out in phases, with HR, IT, SF and KM being carried out in the first phase. This plan ensured that IFAD would: address the strategic thrust of becoming a knowledge organization, an objective now highlighted in the action plan; complete the integration of the financial area from a process- and IT-systems-management perspective; complete work initiated in the area of HR management by the HRMS re-engineering begun in 1996; and eliminate the high institutional risks posed by obsolete 'legacy' IT systems and associated high maintenance costs. A subsequent phase would address the remaining processes.



29. During the detailed design phase all processes associated with the process architecture have been addressed. The following sections outline process objectives, current status and the nature of the process changes envisaged. The re-engineered processes that 'underpin' IFAD's overall architecture (HR, IT, SF, SS) reflect relatively clear expectations from a specific group of stakeholders, led by, but not limited to, IFAD staff and managers. Consequently, process changes, summarized below, focus on discernible efficiency gains that should lead to the required effectiveness improvements. The processes to be engineered (KM, impact management, PM, PD) reflect broader expectations from a more diverse set of stakeholders including, for example, donors, recipient governments and beneficiaries. The changes envisaged have wider implications for IFAD's effectiveness and, given the complexity of the new processes, require additional work.

30. Thus while each of the processes within the process architecture is summarized below, the first phase of interventions would focus primarily on the changes relating to re-engineered processes, together with the changes identified for the KM process. Subsequent interventions would address changes envisioned under the remaining new processes, which would, in addition, benefit from the efficiency gained in the re-engineered processes.

B. Human Resources (HR)

31. **Objectives.** Facilitate the transformation of the Personnel Division from the administrative role it currently plays to that of a strategic partner in IFAD's business, eventually providing strategic support to KM and impact orientation within the organization. This will be done by improving the quality of services HR delivers, reducing costs where possible and reducing the cycle time of HR processes.

32. **Current status.** The HR systems in IFAD currently have the following features: a largely administrative focus and centrally controlled service delivery, with limited resources devoted to strategic HR activities; a general lack of adequate HR IT and other support systems (finance and administration), which results in transactional and labour-intensive HR work at all levels of the organization and across all divisions; a lengthy and cumbersome selection and recruitment process; no formal career-planning; and supervisors that do not appear to be held accountable for HR management.

33. **Process change recommendations.** Redesign of HR functions and services towards a '*dedicated unit*', where each department/division will have an HR subunit assigned uniquely to render services to that department or division; introduction of an integrated IT system that captures data and information related to the human capital of the organization; redesign of the selection and recruitment process; introduction of an HR process that supports employee progression and growth; and, finally, a revised IT system and associated software that allow the introduction of a standardized payroll system.

34. **IT elements.** The existing payroll/personnel system (based on Millennium software) is an ageing legacy system. It has very limited functionality and is unable to support the significant new challenges faced by IFAD staff. An integrated IT system should be introduced to capture data and information related to the human capital of the organization to ensure a highly networked and coordinated workforce management approach. PeopleSoft's HR functionality is the 'best-of-breed' among the ERP packages. Implementation of the training, workforce administration, recruitment and career management modules is recommended. A certain amount of customization is foreseen to accommodate IFAD needs. The implementation of the payroll module of PeopleSoft should be deferred to 2002 in order to verify the availability of a special version for United Nations organizations that PeopleSoft is now evaluating.



C. Strategy and Finance (SF)

35. **Objectives.** Provide IFAD management with the tools and methodology to monitor IFAD's progress in achieving selected strategic objectives of the organization and ensure that resources are adequately allocated according to operative and control requirements in accordance with IFAD's governing body and senior management directives.

36. **Current status.** Allocation of resources is not strongly linked to strategic priorities, some divisions may not be assigned the resources required to achieve their objectives or some activities may be pursued that do not represent strategic priorities. While 'clearing' activities tend to ensure that administrative rules are followed, there is no comparable attention dedicated to the analysis of overall resource allocations, to use (e.g., project development costs) and to comparative assessment of results achieved. The current allocation of resources is budgeted using different processes (i.e., the administrative budget and the programme of work); different destinations (i.e., different budget lines); duplication of administrative tasks; and extensive manual activities using spreadsheets and non-integrated systems that result in labour-intensive independent systems across divisions, jeopardizing reliability and integrity of financial data. These issues have a significant impact on PMD and OE, which require more administrative services in their day-to-day operations.

37. **Process change recommendations.** The main recommendations are to strengthen and redefine control and delegate management of resources. Strengthening of control of resources would be attained by the setting up of a 'management control unit', an internal control framework, including a cost centre methodology, supported by integrated financial systems. This should lead to the elimination of non-value-added activities and reduce manual activities by up to 30%, while providing a single source of financial data shared according to appropriate security requirements.

38. **IT elements.** The integrated system will be based on the PeopleSoft ERP package version 8 with the integration of budget, LGS, project and HR data. PeopleSoft is currently used in IFAD for general ledger and accounts payable (version 6) and the conversion to version 8 could be easier because:

- users working on the general ledger module will need to be trained only in the new 'web-like' user interface and the new functionalities; and
- data conversion will be simplified.

Moreover, no additional cost will be needed for yearly software maintenance.

39. In this area, additional PeopleSoft modules are foreseen to manage disbursement and optimize investment opportunities and forecasting, bank reconciliations and cash projections, time deposits and relations with operational banks. The asset management module of PeopleSoft may be considered as a candidate for further implementation. The advantage for IFAD would be to manage every single piece of accounting information within an integrated system and avoid interface or manual operations, within general ledger.

D. Support Services (SS)

40. **Objectives.** Identify and propose improvements leading to increased efficiency and effectiveness of support services. These services include functional areas and related processes concerning: editing, translation, publication, the Documents Centre, mail, printing, transportation services, conference services, protocol and liaison, visa and liaison, procurement and travel services.

41. **Current status:** There is a need to reduce duplication, clarify roles and responsibilities, create focal points to provide services as shared services, and reduce costs through outsourcing and streamlining of processes.



42. **Process change recommendations.** The work in this area is ongoing, but preliminary analyses show the need to: implement organizational changes in order to attain ease of access, timeliness, completeness, information-sharing and clearer allocation of responsibilities; streamline processes and implement IT tools in order to attain higher-quality service, timeliness and specific savings in manpower allocation; and pursue cost reduction through outsourcing of non-strategic activities and/or devising different ways of subcontracting work.

43. **IT elements.**

- *Procurement.* Activation of the PeopleSoft modules that have been requested for procurement management (purchase order and accounts payable) and setting up integration with the other modules, thus making it possible not only to manage all purchase requisitions and orders for daily operations and projects, but to process consultant invoices as well.
- *Travel management.* The existing manual process should be replaced by a system oriented towards United Nations agencies and organizations. Thus its implementation would have a reduced customization cost. This application will need to be interfaced with the ERP package to directly transfer travel costs to the financial system and project accounting.
- *Editing and translation.* An automated text-correction programme to clean up documents before editing and computer-assisted translation software.

E. Information Technology (IT)

44. **Objectives.** Design and implement an integrated information system architecture that facilitates information sharing and in which access is user driven and process orientated. This will include improving the efficiency of internal business processes; improving efficiency in project implementation; increasing information sharing and knowledge management and supporting the development of partnerships between internal staff and external partners and consultants.

45. **Current status.** IFAD uses different software applications that are usually not integrated. This results in inefficiency, risk of errors in data transmission and constraints on information/data analysis and business control. Communications between external partners/consultants and IFAD staff are normally managed through fax and paper mail, which are time-consuming and involve duplication and delays in information management. System ownership has not been well linked to business ownership and thus the commitment to success in systems development and enhancements has not been shared by both users and developers. Existing applications are insufficient to support a growing business. Piecemeal managing of data resources results in operational inefficiencies and the degradation of data value. Security features such as fault-tolerant systems and disaster-recovery planning are needed.

46. **Process change recommendations.** The main recommendations in this area are:

- Adopt a user- and process-oriented approach to system development projects in which IT priorities are established by IFAD's strategic objectives;
- Transfer system ownership to the business, using participatory methods; and
- Review the organizational structure of IFAD's IT capacity, including skills mix, roles and responsibilities.

The methodology to implement the above will be defined and adopted during the PRP implementation phase. Staff responsible for IT will participate in the PRP implementation phase to ensure continuity of methodology and approach.

47. **IT elements.**

- Rationalize the system architecture in a new web-based environment;
- Transform the disaggregated applications into an integrated solution by extending PeopleSoft ERP-package utilization to gradually include the functionalities of PPMS, LGS, Treasury, HR (staff and consultants), LMS, budget monitoring and management control;
- Use the ERP package for project management (with internal tracking of financial/statistics for projects), thus obtaining project integration with FIS, loans management and all the other ERP modules;
- Upgrade the PeopleSoft package to the newest commercial version (version 8);
- Review and link the Document Management System to the ERP package, so that related documents can be accessed directly from the applications;
- Introduce an extended cross-functional KM system for information analysis control and retrieval, strategy definition, management reporting, financial analysis, project control and performance measurement;
- Continue to develop IFAD's public website to increase worldwide Fund visibility and promotion.

F. Knowledge Management (KM)

48. **Objectives.** Ensure the availability of the needed knowledge at the right time for the right people, both within IFAD and for external partners, including the rural poor. This includes improving the effectiveness and efficiency of internal and partnership processes; making incremental 'operational' knowledge on rural poverty reduction available; and informing and supporting IFAD's operations, policy dialogue and resource mobilization.

49. **Current status.** Limited sharing, validation and dissemination of already available knowledge; limited use of existing mechanisms to share knowledge; no systematic feedback is provided to beneficiaries and other stakeholders; poor development/acquisition of missing knowledge (mainly policy analysis and application); and, finally, no KM relationship is free from problems (among IFAD staff, from/to consultants, from/to beneficiaries and recipient governments, from/to other partners).

50. **Process change recommendations.** Formulation and monitoring of a KM strategy that gives direction, sets priorities and supports budget allocations; installation of an organizational infrastructure that sets specific KM roles and structures; implementation of 'building blocks' (tools, mechanisms, e.g., monthly meetings for knowledge sharing, website for knowledge dissemination) that help all IFAD staff in generating/collecting, storing/classifying and sharing/disseminating the knowledge; and implementation of IT support (KM information system) that enables the actual operation of some building blocks and allows sharing and dissemination.

51. **IT elements.** The working group recommended introducing a KM system for managing a directory of consultants; a knowledge repository for the large amount of IFAD documents (project, policy and donor-related); thematic groups and Internet access for project staff. The proposal is to replace the many systems currently in place with one system with the following characteristics: fully



integrated; user-friendly; interactive and easily adaptable; facilitates teamwork, including remote users; and gives project staff access to IFAD's internal database.

G. Impact Management (IM)

52. **Objectives.** Design and implement a system in which the impact of IFAD-supported activities on rural poverty is constantly monitored, assessed, improved and effectively communicated. This will increase the effectiveness of IFAD and its partners in reducing rural poverty and, in doing so, enhance financial and political support to the Fund's mandate.

53. **Current status.** Impact assessment is not institutionalized within IFAD (at the project and corporate level). Impact-assessment preparation, impact assessment, and improvement in the achievement of positive impact *at the project level* is already part of the normal operations of OE and PMD, embedded in more general exercises of continuous monitoring, review (mainly PMD driven) and evaluation (mainly OE driven). Most projects have a weak focus on impact within the existing monitoring and evaluation systems. Impact assessment *at the thematic level* is not yet fully operational, pending the definition of common categories of impact and the strengthening of corporate-level assessment capability. Communication of impact occurs *de facto*, but it is neither strategically directed nor systematically prepared and executed, and management of expectations is not done as a focused activity.

54. **Process changes under review.** Increased positive impact of IFAD activities through the proper execution of the country strategic opportunities papers (COSOPs), design (logframe) and implementation (including more substantive start-up activities); impact assessment and performance evaluation at the project level through in-country resource people and development of participatory monitoring and evaluation (M&E) systems; impact assessment and performance evaluation at the corporate level, including common categories for impact assessment and strengthened in-house review; impact communication, to obtain the support of different types of stakeholders, including a 'targeted' communication planning process, better staff communication skills and improved methodologies for collection of communication support; improved partnerships during the entire project cycle through increased teamwork in the implementation phase; and IT support.

H. Product Development (PD)

55. **Objectives.** Improve the existing loan management process to make it more efficient, cost effective and responsive to the needs of the various stakeholders. Define a new process for the development of financial products so that the necessary steps can be formulated in order to identify new financial products needed, develop those products and introduce them into the market.

56. **Current status.** The loan management process currently suffers from a lack of responsiveness to borrower requests arising from changes in project realities; conflicts of interest on the part of borrower-stakeholders; insufficient communication among borrower-stakeholders and between the borrower and IFAD; a discrepancy between the authority to approve loan amendments/adjustments and insight into the projects; and inefficient and untimely flows of funds to projects. Currently there is no process for new financial product development.

57. **Process changes under review.** Improvement of learning in the organization through the establishment of a fully operational product development team reflecting regular, broad IFAD representation; improvement of processes and procedures for strengthening the risk management function of IFAD related to project risk, including risk identification, quantification, response development and response control; improving the efficiency of loan administration/loan processing by clarification and standardization of selected documents; implementation of a new financial-product development process, including the new product development team.



I. Partnership Management (PM)

58. **Objectives.** Improve IFAD's ability to identify strategic partnerships and respond to the challenges facing the rural poor; help governments bring about broad-based, long-term change; help donors promote pro-poor policy and institutional change; and identify and solve policy, institutional and operational issues.

59. **Current status.** Partner relationships are managed in different units serving different purposes and do not leverage cross-functional benefits in an institutionalized form. IFAD lacks an appropriate IT system to support partnership management and a strategy through which to achieve multiple partnership objectives (e.g., resource mobilization, policy dialogue and high-impact operations). It also lacks the capacity to analyse experience, communicate that experience and position the fund with respect to various partner categories.

60. **Process changes under review.** Introduction of a partnership-management facilitation team and key account managers in order to institutionalize the exchange of information concerning all partnership relationships (resource mobilization, policy dialogue and operations with IFAD partners); clear responsibilities for partner relationships assigned; and establishment of an IT customer-relationship management system.

V. PRP COSTS, BENEFITS AND PHASING

A. PRP Costs

61. The total cost of the PRP for the first phase has been estimated at USD 15.5 million for the three-year period 2001-2003 (including USD 1.3 million for a voluntary staff separation package¹). USD 13.6 million are one-time investment costs over the three-year period. The other USD 0.6 million are the net recurrent operating costs over the three-year period. The total recurrent costs are offset by the expected benefits of the PRP. The net operating costs in 2004 are expected to reflect a net benefit stream of USD 1.5 million, which is expected to continue thereafter.

62. Table 1 gives the overall estimated costs of the first phase of the PRP by year for the three-year implementation period. For 2001, overall estimated costs are USD 8.1 million, the majority of which, USD 5.7 million or 70%, are IT-related investment costs. The investment costs have been broken down to highlight IT, process-related investments (i.e., non-IT implementation costs related to implementing a new business process) and programme management costs, including change management and risk management.

63. From the analysis above, it is clear that there is a great deal of IT development work to be carried out within the PRP framework. It is important to note that if IFAD were not to move ahead with the re-engineering of its processes, the investment in IT and systems development would still need to be undertaken and financed by other means. However, if undertaken outside of the PRP framework it would not be process driven. The investment in IT presented herein is the minimum necessary to bring IFAD systems up-to-date and ensure a technological environment at the same level as other international financial institutions (IFIs) and sister agencies. It is also useful to note that there is a cost and risk inherent in not replacing legacy systems and continuing with a piecemeal approach to systems development, especially with regard to financial systems.

¹ See paragraphs 74-76 for more details on the voluntary separation package.

**TABLE 1: TOTAL PRP PHASE I COSTS BY YEAR AND TYPE OF COST
(USD million)**

	2001	2002	2003	Total
Investment costs	(7.2)	(5.3)	(1.1)	(13.6)
IT investment	(5.7)	(4.9)	(0.7)	(11.3)
Process investment	(1.1)	-	-	(1.1)
Programme management	(0.4)	(0.4)	(0.4)	(1.2)
Recurrent costs	(1.0)	(2.1)	(1.8)	(4.9)
Benefits/savings	0.4	1.1	2.8	4.3
Net (costs)/savings	(0.6)	(1.0)	1.0	(0.6)
Total costs	(7.7)	(6.3)	(0.1)	(14.2)
Staff separation package	(0.3)	(0.5)	(0.5)	(1.3)
Grand total	(8.1)	(6.8)	(0.6)	(15.5)

Discrepancies in totals are due to rounding.

64. The first phase of the programme includes costs related to the four processes to be re-engineered (HR, SF, SS and IT) and the KM process, as reflected in the prior section on process prioritization and in the feasibility study. The final elaboration and integration of the remaining processes within the PRP framework will be completed during 2001 and will remain within the financial limits established by the Governing Council.

65. Table 2 shows investment costs for IT by the major components over the implementation period. It can be seen from this table that the highest IT costs are related to the SF area and LGS management (project cycle), which together make up over 40% of total IT costs. Most of the IT investment will take place in years 1 and 2 of the programme.

**TABLE 2: INVESTMENT COSTS FOR IT BY PROCESS OR ACTIVITY
OVER A THREE-YEAR PERIOD (2001-2003)
(USD million)**

	2001	2002	2003	Total
Knowledge management	0.9	0.4	0.1	1.5
Strategy and finance	1.3	0.6	0.2	2.0
Human resources	0.5	0.7	-	1.3
Support services incl. procurement	-	0.9	-	0.9
Programme cycle (LGS)	0.7	1.4	-	2.0
Technology hardware/software	1.5	0.5	-	2.0
Data model definition migration planning and web design	0.5	-	-	0.5
Web integration	-	0.2	-	0.2
IT process and structure	0.3	0.2	0.4	0.9
Total	5.7	4.9	0.7	11.3

66. The major categories of investment required to execute the programme include: (a) acquisition of IT software, (b) acquisition of IT hardware, (c) IT consultancy and (d) IFAD staff participation in the programme.²

² The cost of participation of IFAD staff was calculated using a blended rate of professional and general service categories based on the distribution of staff in the two categories and the nature of the activities involved. The cost of consultants was estimated using the average fee that can be expected for large-volume contracts. The acquisition cost of software packages was estimated on the basis of an average per-module license fee.

67. Total estimated costs by expenditure category are shown in Table 3. No provision for potential inflation was included in these figures. As expected, the bulk of the costs (61%) is related to consultancy fees, mainly for systems customization and implementation. Fourteen per cent of expenditures relate to staff participation. It is estimated that about 19 person-years of IFAD staff participation will be needed throughout the three-year implementation period.

**TABLE 3: TOTAL PROGRAMME EXPENDITURES BY MAJOR CATEGORY (2001-2003)
(USD million)**

Expenditure Category	Cost
Acquisition of software packages	2.4
Upgrade of IT infrastructure (hardware)	1.2
Consultants	8.7
Participation of IFAD staff	2.0
Total	14.2

Discrepancies in totals are due to rounding.

B. PRP Benefits

68. **Capital budget methodology.** Financing of the re-engineering programme using the capital budget methodology was proposed to the Sixty-Eighth Session of the Executive Board. This allows expenses relating to the investment to be amortized over a multi-year period in accordance with international accounting standards (IAS)³.

69. In the proposal submitted to the Board, the feasibility study conducted in 1999 estimated that the potential benefits /savings of a re-engineering programme could be enough to cover all the costs related to the programme and allow redeployment of staff and resources from support to operations functions. The design phase, after a more thorough review and analysis, has indicated that this is simply not the case. It will not be possible to generate a level of savings which is sufficient to *both* amortize the capital budget *and* redeploy resources to operations. This conclusion has been reinforced by the recognition of the costs of implementation of the action plan (which was approved after the feasibility study and Executive Board approval of the PRP capital budget).

70. Table 4 gives the net benefit stream by process over a five-year period, i.e., 2003-2007. This period covers the last year of implementation and the four years afterwards. The table shows that the net benefit in year 2003 grows from USD 1.0 million to USD 1.5 million in the years thereafter. Table 4 also shows that while the total net benefit after year 2007 equals USD 7.0 million, it is still not sufficient to offset the investment costs included over the life of the programme (i.e., USD 15.5 million). However, the resources made available by net savings (beginning in 2001) should be sufficient to support implementation of the action plan objectives and support the further development of the other processes, as is already expected for the KM process. Moreover, the fact that additional re-engineering efforts and action-plan-related activities should be supported by resources redeployed from re-engineered areas is, in itself, a strong incentive for managers to capture the estimated benefits, as it is only when benefits materialize that they can be re-deployed to other areas,

³ When investment costs cannot be capitalized, they must be 'expensed' directly in the year in which they are incurred. A key aspect of capital budgeting methodology is that the investment creates an asset, either tangible or intangible, and the IAS indicates what can be defined as assets. In order for the costs of the proposed IFAD programme to be capitalized, it is necessary to have a detailed calculation of the expected value of future economic benefits arising from the creation of the asset, e.g., software. Furthermore, it is necessary to monitor in a structured manner the timing and achievement of benefits during the implementation period. Finally, given that the likely average amortization period is for three years, the capitalization scenario would only serve to extend the amortization period by another two years. It is therefore more appropriate for IFAD to record costs associated with the proposed programme as a specific 'Category of Cost' in the Income Statement.

i.e., operations. It should be reiterated that these net benefits are expected to continue as shown in Table 4 and, given accurate benefit monitoring, form the basis for the financing of additional resource requirements related to re-engineering and enhancing the capacity to implement the action plan.

**TABLE 4: NET BENEFIT STREAM BY PROCESS 2003-2007
(USD million)**

Process	2003	2004	2005	2006	2007	Total
Knowledge management	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(3.3)
Strategy and finance	1.3	1.3	1.3	1.3	1.3	6.5
Human resources	0.2	0.2	0.2	0.2	0.2	0.9
Support services	0.6	0.6	0.6	0.6	0.6	3.0
IT process	(0.5)	0.1	0.1	0.1	0.1	(0.2)
Total	1.0	1.5	1.5	1.5	1.5	7.0

Discrepancies in totals are due to rounding.

71. Benefits to IFAD's efficiency and effectiveness will be both tangible and non-tangible. Tangible benefits should be reflected both in improved impact on the rural poor, IFAD's ultimate client/stakeholder (effectiveness), and reductions in the operating costs of IFAD (efficiency). Positive impact on rural poverty, a central theme of the action plan, will continue to be a key IFAD operational activity, and 'impact assessment' has been one of the processes analysed under the re-engineering programme. Tangible benefits resulting from improvements in efficiency can be identified through savings in time taken for administrative activities and redeployment of staff from services to operational activities. In qualitative terms, the timeliness and accuracy of the enabling services is expected to increase significantly. At the same time, the operational risks associated with inefficient processes and obsolete systems will be removed. The measurement of the non-tangible benefits of improved efficiency and effectiveness will be done by establishing performance indicators for each process⁴.

C. Programme Phasing

72. The first implementation phase, to be completed within three years of the programme, includes the following processes: KM, SF, HR and IT management. During 2001, and in parallel with work on the action plan, the final details of the processes to be engineered will be established. This will be done on the basis of the implementation status of the re-engineered processes and the 'global' IT support. Subsequently, therefore, the second phase will be presented to the Executive Board for approval and funding in 2001.

73. The preliminary work done with regard to the remaining new processes – i.e., impact management, policy analysis, partnerships and new product development – indicates that their cost, along with IT investment needed and phase costs, would be within the overall ceiling agreed to by the Governing Council, i.e., USD 26.0 million (including up to USD 1.0 million for detailed design costs incurred in 2000).

VI. IMPLEMENTATION

74. **Staffing implications.** As can be understood from the above, the PRP will have an impact on IFAD's staffing levels by making supporting activities more efficient and implementing systems to support those processes. In particular, because of the degree of duplication and the extent of manual

⁴ Performance indicators for the following processes are given as examples: strategy and finance: faster processing of financial transactions; product development: fewer loan amendments and fewer loan-related inquiries from recipient governments; knowledge management: number of instances of CPMs applying findings and recommendations from other countries/projects/regions; number of applications of knowledge-note findings within 12 months of note dissemination; human resources: time taken to recruit a consultant.



work in current procedures, addressing those issues will enable the Fund to reduce general service staffing levels in some units. However, a number of these positions will be redeployed to operations as either general service or converted to professional posts. It is useful to note that the majority of the staffing changes will not take place before 2003.

75. In order to have the most conducive work environment during the implementation period, and to ensure that staff remain focussed on the work at hand and not on potential job cuts, management remains committed to finding all possible solutions to ensure that contracts are not terminated due to re-engineering. This objective can be achieved through a four-pronged strategy:

- retrain people for the new skills sets that will be needed;
- redeploy people to other areas where there may be an increase in workload;
- fill all vacant general service posts with internal candidates only, including long-term temporaries but excluding short-term temporary staff; and
- design and implement a voluntary early retirement/separation package to those interested and based on the mutual agreement of the staff member and the organization.

76. The cost of a voluntary separation package has been estimated at USD 0.3 million for 2001 and USD 0.5 million for the two-year period 2002-2003 and is included in the overall costs of the PRP. An additional benefit of the voluntary separation package will be that it will allow for greater career possibilities and regeneration of IFAD staff.

77. **IFAD institutional support.** A programme management unit, reporting to the programme sponsor, will be set up to manage the overall implementation of the programme. This unit will be responsible to:

- manage the different programme components and processes, including IT initiatives, manage relationships with external partners;
- manage the overall and detailed programme implementation plans;
- elaborate and communicate programme progress;
- monitor the progress of the programme business case,
- manage programme risks and issues;
- define procedures for decision-making, communication, validation, issues-solution and documentation standards;
- ensure that programme standards and procedures are consistently adopted throughout the programme; and
- coordinate the change-management activities.

78. The unit would be composed of IFAD staff and consultants.

79. **Programme risk management.** The implementation of programmes supporting institutional change with a high level of IT inputs has been shown to be susceptible to time and cost overruns. The programme envisaged for IFAD, given the emphasis on IT both as a cost component and as an underpinning facility for the processes, thus requires specific attention. Poor programme management exposes organizations to financial, strategic, operational, information processing and technology risk. During implementation, a programme risk-management methodology will be put in place, including staff training, the tracking and monitoring of risks and ongoing risk assessment.

80. The procurement of consultants for the implementation phase will be made on a competitive basis, selecting an implementation partner from major recognized international business consulting and IT implementation firms. The selected partner must be qualified in terms of methodology and experience for the required capability-development work and specialized programme management activities.



VII. RECOMMENDATION

81. Following the adoption of Governing Council Resolution 116/XXIII (document GC 23/L.6), which approved a Capital Budget of IFAD for a Process Re-Engineering Programme in the amount of USD 26.0 million, and the delegation therein to the Executive Board to approve the second and subsequent tranches of the said capital budget for implementation, the Board is invited to consider the proposed second tranche of the capital budget for the first phase of implementation for the PRP in an amount of USD 15.5 million to be carried out over the period 2001-2003.