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Enabling poor rural people
to overcome poverty

Managing for efficiency in IFAD: Progress under IFAD8 and proposals for IFAD9

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Consultation on the Ninth Replenishment of IFAD's Resources —
Third Session
Rome, 24-25 October 2011

For: Review

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Abbreviations and acronyms

CRA	Change and Reform Agenda
GS	General Service
HR	human resources
ICO	IFAD Country Office
ICSC	International Civil Service Commission
IEI	institutional efficiency indicator
IFAD8	Eighth Replenishment of IFAD’s Resources
IFAD9	Ninth Replenishment of IFAD’s Resources
IFI	international financial institution
MTP	Medium-term Plan
POLG	programme of loans and grants
RMF	Results Measurement Framework

Executive summary

1. This document has been prepared in response to the request by members of the Consultation on the Ninth Replenishment of IFAD's Resources that Management present a paper on managing for organizational and operational efficiency under the Ninth Replenishment of IFAD's Resources (IFAD9), at the third session of the Consultation on the Ninth Replenishment of IFAD's Resources. Accordingly, this paper contains Management's proposals for enhancing the Fund's efficiency in the IFAD9 period. It also includes a proposal for broadening the efficiency indicators currently being used by the Fund.
2. As the Independent Office of Evaluation of IFAD is undertaking a corporate-level evaluation of IFAD's efficiency, it is recommended that the proposals made in this document be seen as interim in nature, to be validated and supplemented as necessary once the evaluation is completed in 2012. It is further proposed that a final paper based on the outcome of the IFAD9 Consultation and the recommendations of the corporate-level evaluation be submitted for the approval of the Executive Board not later than December 2012.
3. To provide an appropriate institutional context for the efficiency actions proposed for IFAD9, the paper first reviews the actions that Management has taken under its Change and Reform Agenda (CRA), launched in 2009. The CRA is aimed at making the Fund a more effective, efficient and agile institution. The efficiency gains made in the context of the CRA are also discussed.
4. The paper notes that, under the CRA, a number of important reform initiatives are being implemented. The Fund's organizational structure has been bolstered through: the strengthening of the Programme Management Department; the creation of the Office of Strategy and Knowledge Management under a Chief Development Strategist; and the establishment of a Financial Operations Department under a Chief Financial Officer and a Corporate Services Department, under a Head of Department. In addition, the Fund's resource mobilization capacity has been augmented by the establishment of a Resource Mobilization and Partnership Office headed by a Senior Adviser to the President.
5. Important actions have been taken under the CRA to align the human and financial resources of IFAD with its strategic objectives. Specific measures have included the adoption of a results-based budgeting system that directly links expenditures to results, and the launch of strategic workforce planning to ensure optimal deployment of staff. In addition, a series of human resource management reforms has been launched to improve the Fund's work environment; manage staff performance and ensure appropriate levels of staff productivity; and align staff compensation with appropriate comparators. Measures to improve financial, administrative and business processes have also been a central focus of the CRA.
6. As a consequence of these actions, the paper finds that the Fund has surpassed the efficiency targets set for IFAD8. The efficiency ratio measured as a ratio of the administrative budget to the programme of loans and grants is projected to reach 12 per cent in 2012, surpassing the target of 13.5 per cent. The proportion of the workforce assigned to programmes is now 67 per cent as opposed to the target of 65 per cent. And the time needed for the processing of withdrawal applications declined from 35 days in 2009 to 27.5 days in the first half of 2011, a gain of 21.4 per cent.
7. For IFAD9, Management is proposing a set of actions to further enhance the efficiency of the Fund. The first is the consolidation of the CRA to provide a robust organizational and policy framework for additional efficiency actions. The second is the introduction of new management tools to contain costs, and to reduce them wherever possible. The instruments proposed are: a time-reporting system for staff to assess staff costs for each business activity and the development of efficiency

indicators for all the Fund's business processes. Regular reporting will be undertaken for Senior Management on these indicators in the context of the quarterly performance report and for the Board through the annual Report on IFAD's Development Effectiveness (RIDE). These will enable the Fund to monitor closely the costs of major business processes and to take the needed cost containment or cost reduction measures. These measures are also expected to promote a stronger culture of cost-consciousness and efficiency throughout the institution.

8. To measure and follow up on the Fund's overall efficiency, a series of new indicators is proposed. Targets for each efficiency indicator have also been set to reflect the anticipated efficiency gains from the actions that will be taken under IFAD9 to improve the Fund's efficiency. Taken as a whole, these indicators will provide a more complete picture of the progress made by IFAD in enhancing its institutional efficiency.

Action requested:

IFAD Management requests members participating in the third session of the Consultation on the Ninth Replenishment of IFAD's Resources to provide comments on the proposals presented in this paper. These comments will be incorporated into the Report of the Consultation on the Ninth Replenishment of IFAD's Resources, which will be submitted for further review by the final session of the IFAD9 Consultation in December 2011, and for final approval by the Governing Council in February 2012.

Managing for efficiency in IFAD: Progress under IFAD8 and proposals for IFAD9

I. Introduction

1. At the first session of the Consultation on the Ninth Replenishment of IFAD's Resources (IFAD9), members requested Management to prepare a paper on managing for organizational and operational efficiency, with a focus on budget and human resources (HR) management. While recognizing that IFAD had set efficiency targets for IFAD8 in the Results Management Framework, members nonetheless requested proposals from Management for additional actions to enhance the Fund's organizational and operational efficiency.¹ This paper has been prepared in response.
2. Improving efficiency has been a central and continuing priority for the Fund since the Seventh Replenishment of IFAD's Resources (IFAD7), with a view to increasing the resources invested in the Fund's development programmes and improving the services IFAD provides to its borrowing Member States. In 2006, under IFAD7, IFAD's Action Plan for Improving its Development Effectiveness was launched.² Under the Eighth Replenishment of IFAD's Resources (IFAD8), Management is implementing the Change and Reform Agenda (CRA), which was launched in 2009 to make the Fund a more effective, efficient and agile institution.
3. The CRA is beginning to have a significant impact on improving IFAD's efficiency – as evidenced by the improving efficiency ratio and the increased resources being allocated to programme development activities. The CRA's positive impact is expected to continue in the remaining months of IFAD8. Management is keenly aware that additional actions are required to improve efficiency further. Towards this end, this document presents proposals for implementation under IFAD9, to better measure, demonstrate and achieve efficiency. These will build on the solid groundwork being laid by the CRA.
4. In addition, the Independent Office of Evaluation of IFAD (IOE) is undertaking a corporate-level evaluation of the Fund's efficiency. The study, slated for completion in 2012, is expected to make a number of recommendations to improve efficiency. The proposals laid out below for IFAD9 (sections IV and V) will therefore need to be reviewed in 2012 in the light of IOE's findings and recommendations. Although fully developed and representing a major push for enhancing IFAD efficiency under IFAD9, the proposals made in this paper are interim in nature, to be validated and supplemented once the IOE evaluation is completed. Final proposals for managing for efficiency under IFAD9 will be presented for the consideration and approval of the Executive Board not later than December 2012.

¹ See the Chairperson's summary of the first session of the Consultation on the Ninth Replenishment of IFAD's Resources (document REPL.IX/1/INF.2).

² The programme was supported with a grant of US\$15 million from Sweden.

5. The paper is organized as follows. Section II discusses the actions that Management has taken to improve IFAD's organizational and operational efficiency under IFAD8 in the context of the CRA. Section III discusses the efficiency gains realized to date under the CRA. In section IV, the actions that Management proposes to enhance the Fund's organizational and operational efficiency under IFAD 9 are discussed. Section V presents a proposal on the efficiency indicators to be monitored, measured and reported on in the course of IFAD9. Finally, section VI provides a summary of the main proposals.

II. Managing for organizational and operational efficiency under IFAD8: Change and Reform Agenda

A. Change and Reform Agenda

6. Under IFAD8, the main vehicle used by Management to improve the Fund's organizational and operational efficiency has been the Change and Reform Agenda. The goal of the CRA is to make IFAD a more effective, efficient and agile institution.³ Specifically, its strategic objectives are: (i) ensuring the effective delivery of IFAD8 by enhancing the organizational capacity of the Fund; (ii) strengthening IFAD as a knowledge institution; (iii) improving the Fund's financial management; and (iv) improving the Fund's efficiency.
7. Within the CRA, the specific measures that have had a direct bearing on improving efficiency include: (i) strengthening IFAD's organizational structure and streamlining its decision-making processes; (ii) aligning closely the Fund's human and financial resources with its strategic objectives to ensure efficient resource use; (iii) implementing reforms in HR management to better manage staff performance and improve productivity; (iv) strengthening financial management to improve the efficiency of its financial services; and (v) improving business processes throughout the organization to achieve efficiency gains. These initiatives are discussed in greater detail below.

B. Strengthening the Fund's organizational structure

8. Beginning in 2009, IFAD has instituted a series of organizational reconfigurations, focused largely on the responsibilities of Senior Management and reporting arrangements. The objective has been to ensure that the Fund has the optimum organizational structure and capacity, reporting arrangements, effective accountability frameworks, and efficient decision-making processes to enable it to deliver on its mandate and ensure that it uses the resources at its disposal effectively and efficiently. The actions have affected all departments.
9. **Programme Management Department.** The Fund has strengthened its Programme Management Department (PMD) by creating a new Environment and Climate Division and enhancing the capacity of its Policy and Technical Advisory Division through the incorporation of parts of the former Policy Division. In addition, it has strengthened the administrative and organizational framework for the establishment of **IFAD Country Offices (ICOs)**. The reinforcement and expansion of the ICOs – a major pillar of the Fund's business model – have contributed considerably to ensuring that programme development and implementation support activities are carried out more effectively and efficiently.⁴
10. **Financial Operations Department and Corporate Services Department.** At the beginning of 2011, the former Finance and Administration Department was split into two departments: the Financial Operations Department headed by a Chief Financial Officer, and the Corporate Services Department (CSD) headed by a Head of Department. These organizational changes have become central in (i) improving the effectiveness and efficiency of the Fund's financial services; and (ii) enhancing

³ An update of the CRA was presented to the Consultation in the context of the mid-term review of IFAD8.

⁴ See *IFAD's Business Model in IFAD9* presented at the second session of the IFAD9 Consultation, June 2011.

the management of the Fund's human resources and internal administrative and business processes (discussed in greater detail below). In turn, these improvements are yielding, and will continue to yield, important efficiency gains.

11. **Office of Strategy and Knowledge Management (SKM).** The main goal of this office, headed by IFAD's Chief Development Strategist, is to strengthen the Fund's analytical capability and its capacity for global policy dialogue and advocacy for smallholder agricultural development. In addition, the office is expected to make major contributions to country programming by (i) preparing policy and strategy documents⁵ that are informed by state-of-the-art thinking; and (ii) developing more effective knowledge management instruments that focus on internal knowledge generation and dissemination, as well as on effective use of external knowledge sources.
12. **Resource Mobilization and Partnership Office (RMP).** Headed by a Senior Adviser to the President, this office will be instrumental in strengthening the Fund's resource mobilization capacity by enabling it to tap into both traditional and non-traditional sources. It will also play a major role in strengthening strategic partnerships to enable IFAD to reach one of its most important objectives for 2015 – the **scaling up** of the Fund's programmes and projects – thus enhancing its development impact and efficiency.

C. Streamlining the decision-making process

13. In tandem with the strengthening of the organizational structure, steps have been taken to streamline the decision-making process and make it more participatory. The Executive Management Committee, chaired by the President and composed of all senior managers, was created in 2009 with responsibility for decisions on policy matters. Also in 2009, an Operations Management Committee was established to coordinate and take decisions on operational matters. This committee is chaired by the Vice-President and its membership consists of all IFAD directors. Greater participation and transparency in decision-making are enhancing the efficiency of the workflow within the Fund.

D. Aligning human and financial resources with strategic objectives

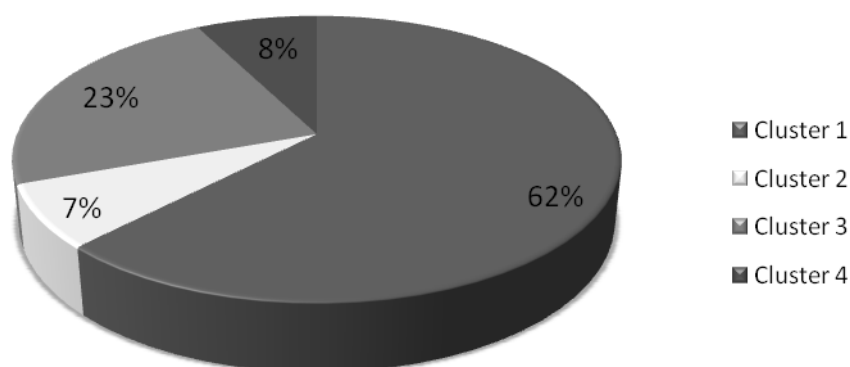
14. Under the CRA, the Fund has introduced three important instruments to better align its human and financial resources with its strategic objectives, as set out in the IFAD Strategic Framework 2011-2015. The first is the **Medium-term Plan**, which demonstrates in detail the relationship between resource use and expected outputs (inputs/outputs) for each department and division within a three-year rolling time frame. The second is the adoption of a **results-based budgeting system** to ensure that the resources of the Fund are optimally allocated by linking resource allocation directly to expected development results and impact. The third instrument is the **strategic workforce planning** exercise which aims at deploying IFAD's workforce in line with strategic objectives. These three instruments are proving essential in ensuring that IFAD's financial and human resources consistently work at peak efficiency.
15. **Medium-term Plan.** The Fund's first Medium-term Plan (MTP) was prepared and presented to the Board in 2010. The MTP uses a logical framework to set out in detail each organizational unit's resource allocation, the expected outputs, and the contributions made towards achieving the expected development results and outcomes over a rolling three-year period. In addition, the MTP provides a clear accountability framework for the execution of the programme of work and the use of resources. In short, with the introduction of the MTP, IFAD for the first time is

⁵ The new IFAD Strategic Framework 2011-2015 was prepared by SKM and approved by the Executive Board in May 2011.

using a medium-term framework for planning and allocating its resources and for annual comparative reporting.

16. **Results-based budgeting.** In 2010, IFAD introduced its results-based budgeting system with the following objectives: linking expenditures directly to results; aligning budget allocations with results requirements; and creating an accountability framework to track expenditures against results achieved. To allow for clear priority setting and for ease of analysis, the administrative budget has been grouped into four clusters: cluster 1 – country programme development and implementation; cluster 2 – high-level policy dialogue, resource mobilization and strategic communication; cluster 3 – corporate management, reform and administration; and cluster 4 – support to Members’ governance activities.
17. At the institutional level, ex ante budgetary allocative efficiency would require the optimal allocation of resources to clusters 1 and 2 to meet agreed programme outputs and effectiveness and quality targets as set out in the Results Measurement Framework (RMF),⁶ and the rationalization of resources allocated to clusters 3 and 4, subject to the requirement that administrative services are provided at the needed levels. The allocation of the Fund’s budgetary resources by cluster for 2011 is shown in chart 1 below. A further increase in the allocation to cluster 1 and a reduction in the allocation to cluster 3 are being proposed for 2012.

Chart 1
2011 Budget allocation by clusters



Note: cluster 1: country programme development and implementation; cluster 2: high-level policy dialogue, resource mobilization, and strategic communication; cluster 3: corporate management, reform and administration; and cluster 4: support to Members’ governance activities.

18. **Strategic workforce planning.** The Fund’s workforce – both staff and consultants – represents the key resource for achieving IFAD’s objectives, and the associated costs account for nearly two thirds of the Fund’s annual budget. The optimal deployment of the workforce (and the containment of staff costs) is thus critical for both the Fund’s effectiveness and its efficiency. The guiding principle here is to ensure that IFAD has the maximum workforce allocated to clusters 1 and 2, and the minimum workforce deployed to clusters 3 and 4, while still ensuring provision of the needed level of administrative and support services.
19. With a view to achieving this goal, the Fund began a strategic workforce planning exercise in 2009. The actual deployment of staff and consultants within IFAD has

⁶ While according relative priority to the budgets for clusters 1 and 2, keen attention will be paid to maximizing cost-efficiency of expenditures incurred under these clusters.

been mapped. In addition, within the framework of the Medium-term Plan, divisions submit their staff requirements to deliver their divisional programmes. And, following the external review of the Fund's human resources – which pointed to certain “anomalies” regarding the composition and distribution of positions – a job audit is now being undertaken by external consultants to assess job functions, qualifications and skill requirements in relation to the work programme of each division.⁷

20. As agreed under the RMF for IFAD8, three workforce effectiveness and efficiency indicators are currently being tracked. These are: (i) percentage of workforce in programmes; (ii) percentage of workforce from Lists B and C Member States; and (iii) percentage of women in Professional positions at the P-5 level and above. The first indicator, percentage of workforce in programmes, serves as a proxy indicator for the efficient allocation of workforce resources; the Fund has made notable progress in this regard. This is discussed in the next section.

E. Human resources management reforms

21. Efficiency requirements dictate not only the optimum deployment of staff resources, but also the creation of a work environment in which planned staff outputs are delivered and staff productivity enhanced.⁸ Particularly important is for the system to ensure that “incentives are aligned to results, with good performance rewarded and weak performance challenged”.⁹ In addition, as the compensation and benefits system is a major determinant of the overall cost structure and efficiency of the Fund, this needs to be periodically reviewed to ensure that it is aligned with the appropriate labour market comparators.¹⁰ With the adoption of the CRA, Management has taken a number of steps to improve IFAD's work environment.
22. **Improving the Fund's work environment.** The staff rules and procedures govern the conditions of work and service at IFAD. They are currently being revised and are due to be completed in 2011. The new rules and procedures will reflect modern HR management practices and are expected to improve the Fund's work environment as well as staff performance management.
23. As part of the commitments under IFAD8, an external review of IFAD's HR management system was undertaken and the results shared with the Executive Board. A number of important findings emerged, namely, that: (i) the compensation of General Service (GS) staff is costly and is not aligned with labour market conditions in Rome; (ii) the current system of performance management is too rigid, in particular relating to the possibility of pay-for-performance; and (iii) the ratio of General Service staff to Professional staff is high.
24. The Fund is addressing the first two issues with the International Civil Service Commission (ICSC), with the possibility of introducing changes that will affect not only IFAD's compensation and performance management system, but also those of the Rome-based agencies and the United Nations system as a whole. The third issue – ratio of General Service staff to Professional staff – is being addressed in the context of the ongoing job audit.
25. Pending the outcome of these discussions and the job audit, Management has taken the following measures: a freeze on the hiring of new GS staff and a freeze on automatic GS salary increases for 2010 and 2011. In addition, with a view to

⁷ The external review found that the proportion of Professional staff to General Service staff was almost 1:1 and that in the case of both Professional and General Service staff, the preponderance of actual positions were in the higher grade categories.

⁸ The RMF includes a composite index – the staff engagement index – that measures and tracks staff perception of IFAD's overall work environment.

⁹ A point emphasized in the Report of the Consultation on the Eighth Replenishment of IFAD's Resources presented to the Governing Council in February 2009.

¹⁰ It should be noted that compensation for the staff of IFAD (as a United Nations specialized agency) is set by the ICSC.

controlling staff costs, a number of cost-saving measures have been implemented, such as the streamlining of travel entitlements and removal of non-service related insurance components for illness and accidents. These have resulted in significant savings.

26. **Enhancing staff performance and productivity.** The performance enhancement system has been reviewed and improved, with a stronger focus in 2011 on addressing staff underperformance. An electronic system has been introduced, along with an enhanced 360-degree feedback system. Greater emphasis has been placed on skills enhancement. Despite these improvements, further work is still needed to ensure that the PES becomes an effective tool for performance management and enhancement. Experience to date has shown that a better designed PES is needed, accompanied by continuous training of managers in its effective use.
27. **Staff rotation and training.** The Fund is encouraging greater staff rotation as a way to improve staff performance. In the past year, some 45 staff members have been rotated, including a number of directors. Significant resources have also been devoted to staff training to equip staff with the skills and knowledge to carry out their duties. Such training has focused on project and programme management, with major implications for organizational efficiency and development effectiveness.
28. **Voluntary Separation Programme.** The first phase of the Voluntary Separation Programme (VSP) (2009) has been implemented and the second phase is under way. Up to 25 staff members are expected to take advantage of the programme. The VSP will contribute to lowering costs and create room for acquiring new skill and knowledge sets needed by the Fund. Further initiatives for the continued renewal of the workforce will be considered after the completion of the human resources reform initiatives currently under way.

F. Strengthening financial services

29. As noted above, important measures have been taken under the CRA to improve the effectiveness and efficiency of IFAD's financial services. These include: the establishment of a new Financial Operations Department (FOD) under a Chief Financial Officer; reorganization of the Controller's and Financial Services Division to respond better to the evolving needs of the Fund; a major IT investment of US\$15 million to replace the Fund's Loans and Grants System; and transfer of the budget preparation and oversight function to FOD, with the creation of the Financial Planning and Risk Analysis Unit for better financial planning and budgetary execution.
30. These changes are expected to result in the following efficiency gains: shorter withdrawal (disbursement) processing time (the RMF measures "processing time for withdrawal applications"); maximum returns on investments subject to the conditions set by the Fund's investment policy; and better monitoring of the use of budgeted resources to encourage more efficient use.

G. Improving administrative and business processes

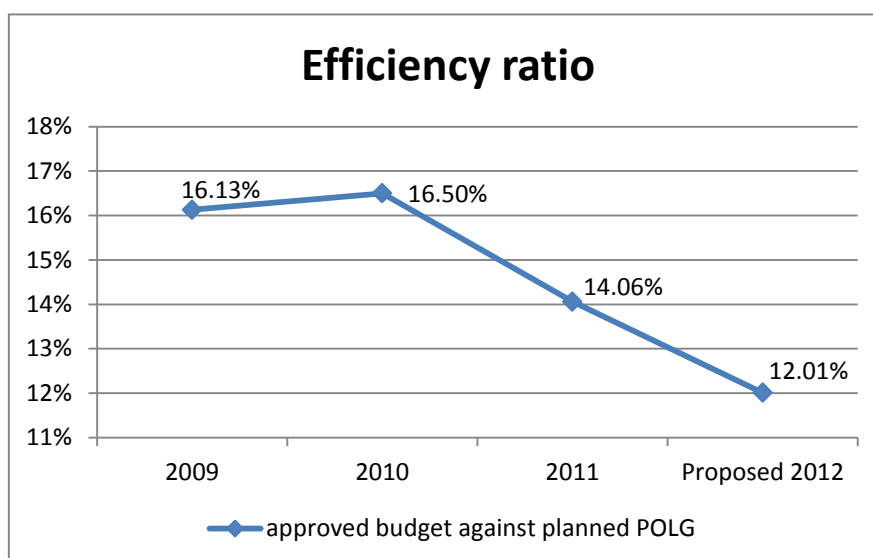
31. The Fund has continuously reviewed its other administrative and business processes to reduce costs and improve response times by streamlining administrative procedures and using up-to-date technology. Such reviews have encompassed the Office of the President and Vice-President for due diligence and decision-making processes; the Office of the Secretary for web-based communication with the Board; and the Controller's and Financial Services Division.
32. In addition, in the Human Resources Division, a web-based electronic recruitment system has been introduced and a review of work processes, organization and staffing is under way. In the Administrative Services Division, a system for common procurement with the Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP) has been launched and other

joint services are being explored to reduce procurements costs for the three organizations. In addition, an external review of the division's processes and procedures is being carried out. In the Information and Communications Technology Division, an external review of the Fund's ICT system has been undertaken and plans have been drawn up to ensure that IFAD makes full use of state-of-the-art IT to improve the efficiency of its internal business processes.

III. Efficiency gains under IFAD8

33. As noted earlier, the IFAD8 RMF has indicators for measuring the Fund's efficiency under level 5 – institutional management and efficiency. These indicators aim at capturing progress on internal reforms, including improvements in institutional efficiency. More specifically, the indicators measure progress on four sets of activities: (i) improved resource mobilization and management; (ii) improved human resources management; (iii) improved risk management; and (iv) improved administrative efficiency.
34. While most of the indicators focus on effectiveness, the specific indicator for **improved administrative efficiency** measures annual administrative costs as a proportion of the annual programme of loans and grants (POLG) financed by the Fund's own resources.¹¹ The RMF has other indicators that serve as measures of business process efficiency: the percentage of workforce in programmes is a measure of ex ante allocative efficiency; the amount of time from approval to first disbursement, and the time needed for processing withdrawal applications (tracked under level 4 of the RMF) can be seen as both a proxy indicator of the efficiency of internal administrative processes and a measure of IFAD's responsiveness. Significant progress has been made on these three measures of efficiency as shown below.
35. **Institutional efficiency.** In terms of the ratio of administrative costs to the POLG, IFAD has made considerable progress in the three years since the launch of the CRA. This is illustrated in chart 2 below, which shows a decline in the ratio from just over 16 per cent in 2009 to 14 per cent in 2011. It is projected that this ratio will decline to 12.1 per cent in 2012, against the IFAD8 target of 13.5 per cent.

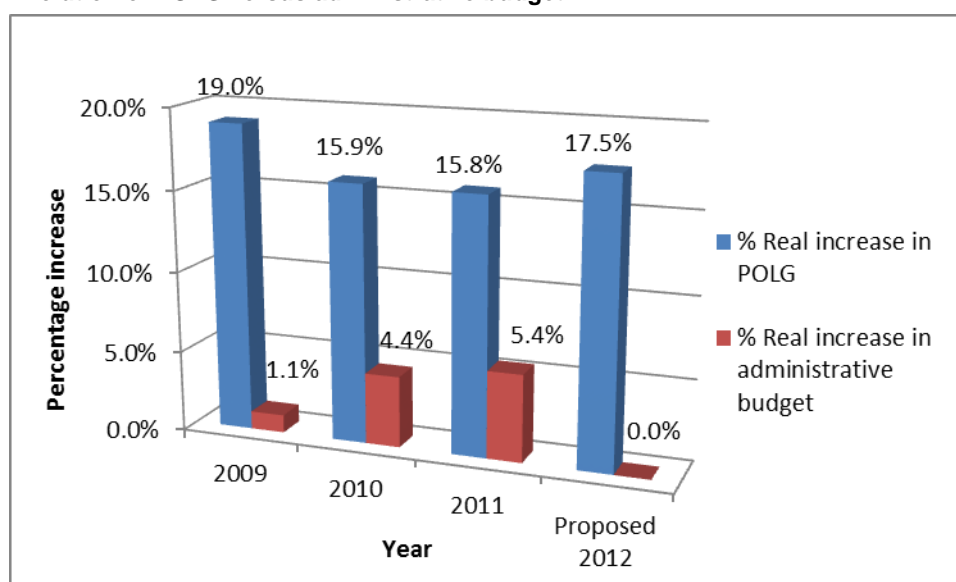
Chart 2
Evolution of IFAD's efficiency ratio



¹¹ Programmes and projects financed by other entities such as the European Union, the Global Agriculture and Food Security Program (GAFSP), and managed by IFAD are not included. The management fees and supplementary funds that IFAD receives are also not included.

36. The efficiency gains recorded under IFAD8 are broadly explained by the actions taken under the CRA. Specifically, two actions have had a direct impact.
37. The first is the decision taken to limit the annual growth of the budget for country programme development and implementation (cluster 1) at a rate considerably below the annual growth in the POLG, without sacrificing effectiveness or quality targets. From 2009 to 2011, for example, despite the growth of the POLG by 39.5 per cent, the growth in the budget for cluster 1 was only 9.8 per cent.
38. The second action has involved reductions in budgets for management and administration (cluster 3) and support to Members' governance (cluster 4). This has been made possible by the efficiency gains resulting from the changes and reforms to internal administrative and business processes. The combination of these measures has yielded positive results. As shown in chart 3, despite significant growth in the POLG – and improving performance of Fund-supported programmes – annual growth of the overall administrative budget was modest between 2009-2011, and is planned to be zero in 2012.

Chart 3

Evolution of POLG versus administrative budget

39. In addition, an improvement in the efficiency ratio has occurred despite the considerable expansion in the Fund's non-lending activities such as contribution to policy inputs at the national level, more intensive participation in international policy forums and contribution to the knowledge base on rural poverty. Furthermore, IFAD provides project development and loan and grant administration services to Member States for which it is compensated only partially, increasing financial costs.
40. **Allocative efficiency.** Under IFAD8, the target for percentage of workforce in programmes (operations) was set at 65 per cent for 2012. This target has already been achieved in 2011, with the percentage of the workforce in operations standing at 67 per cent (second quarter 2011).
41. **Business process efficiency.** Under IFAD8, the time for withdrawal application processing declined from 35 days in 2009 to 27.5 days in 2011 (average for the first two quarters of 2011), a gain of 21.4 per cent. With the implementation of the new Loans and Grants System in 2012, which will allow for electronic processing of withdrawal applications, significant additional gains are expected.

IV. Managing for organizational and operational efficiency under IFAD9

42. For IFAD9, Management is committed to enhancing further the organizational and operational efficiency of the Fund. Towards this end, Management envisions the following set of complementary actions:
- **Consolidation of the Change and Reform Agenda.** Management foresees the consolidation of the efficiency initiatives launched under the CRA to ensure that the institutional and policy frameworks for an efficient organization are in place.
 - **Introduction of new management tools to contain/reduce costs.** Management plans to introduce new management tools to enable the Fund to monitor more closely the costs of all business processes and to facilitate organizational units in containing such costs and reducing them, wherever possible. By 2015, IFAD will have put in place an **accounting/reporting system** for the staff time used for each business activity to measure accurately the staff costs related to each business process and activity. In addition, each organizational unit will be requested to develop **key business efficiency indicators** to be monitored and reported on a quarterly basis. In this manner, the Fund plans not only to instil a culture of cost-consciousness and efficiency within the entire organization but also to provide effective tools for cost containment, cost reductions and efficiency gains

A. Consolidating the Change and Reform Agenda

43. Under IFAD9, Management envisions the full consolidation of the CRA. It will ensure that all the organizational and policy elements of the CRA that contribute to improving efficiency are in place. The main actions envisaged are the following:
- (i) **Organizational structure and decision-making.** Management believes that the reconfiguration of the Fund – in place since 2009 – has provided the required organizational framework to implement IFAD’s mandate effectively and efficiently. The **organizational pillars** for programmes, knowledge, finance, administration, and resource mobilization and partnership are now all firmly established. However, the efficacy of the new organizational, reporting and decision-making arrangements will be reviewed continuously and corrective actions, when necessary, will be promptly taken.

The most significant organizational change planned by Management under IFAD9 is the **expansion and strengthening of IFAD Country Offices (ICOs)**. As noted above, this is a critical pillar of the Fund’s business model. Current plans – which have already been approved by the Executive Board – are to increase the number of ICOs from 30 in 2010 to 40 by 2013.

The ICOs are enabling the Fund to reduce considerably the costs of programme development and implementation support by having a significant part of the work done by locally hired staff. Expansion and strengthening of the offices can therefore be expected to result in additional efficiency gains, while also ensuring that quality and effectiveness targets are met. Accordingly, Management will continue to pay particular attention to ensuring the provision of the required administrative and organizational support for ICOs.¹²

- (ii) **Aligning human and financial resources with strategic objectives.** The Fund will continue to develop its MTP to turn it into an effective tool for

¹² See IFAD Country Presence Policy – Update, presented at the September 2011 Board (document EB 2011/103/R.8). IFAD Country Offices are small (2-3 staff) and cost-effective as they are hosted by other United Nations or international development institutions.

programming the work and budget of IFAD. In addition, it will continue to refine its results-based budgeting approach for the allocation of financial and human resources and will fully implement its Strategic Workforce Plan, once the job audit is completed.

With respect to **results-based budgeting**, the aggregation of the budget into the four clusters will be fine-tuned. As the cost-accounting system of the Fund improves, particularly with respect to tracking staff time, it is anticipated that budgetary allocations will become more accurate, allowing for more targeted resource allocation to the four clusters. The allocative efficiency of the Fund will continue to be monitored by assessing the proportion of the total budget allocated to each of the clusters.

To maximize efficient use of IFAD's resources, the **Strategic Workforce Plan (SWP)** needs to be finalized and implemented. This will be made possible by the completion of the job audit exercise. It should be underscored that as the SWP could entail significant realignment and redeployment of the Fund's workforce, it will need to be carefully planned, and implemented in a phased manner.

- (iii) Human resource management reforms.** HR reform will undoubtedly continue to be the major challenge facing IFAD as it seeks to improve the work environment, enhance performance management and staff productivity, streamline systems and procedures, and align GS staff compensation with the market.

The new staff rules and HR policy procedures will begin to come into force in 2012. The performance enhancement system will be reviewed again in 2012 and managers will be trained to better manage staff performance. In addition, Management will continue to prioritize the training needs of staff in order to raise productivity.

Equally important, consultation with the ICSC will continue on the selection of appropriate comparators to use in establishing the Fund's GS compensation level. This is essential to contain rises in staff costs and to align them with reasonable market comparators. An important indicator of progress will therefore be a reduction in the cost of GS staff as a proportion of total staff costs. This indicator will be tracked under IFAD9 (see below). Consultations with the ICSC will also continue with a view to introducing more flexibility into the current United Nations compensation system to allow for the adoption of a pay-for-performance approach.

- (iv) Strengthening financial services.** Management will continue to strengthen financial management services. In addition to consolidating the organizational changes already implemented, which are expected to yield significant efficiency gains, the new LGS is tentatively planned to come on stream by 2012. Over time, this new LGS process is expected to increase efficiency further.
- (v) Improving administrative and business processes.** The Fund will continuously review its business and administrative processes to realize further gains. An important initiative in this regard is the new Delegation of Authority matrix currently being prepared, which will come on stream in 2012. And in line with the recommendations of the external review of IFAD's ICT system, a plan for upgrading IFAD's IT platforms and ensuring appropriate staffing of the ICT Division is under implementation to reduce the risk of obsolete systems and pave the way for future efficiency gains. These initiatives are expected to result in the containment or reduction of unit costs for labour, goods and services.

B. New management tools to contain/reduce costs

44. **Time expenditure reporting.** As staff costs account for nearly two thirds of IFAD's total annual budget (rising to 80 per cent when the cost of consultants is included), it is essential that the Fund put in place effective systems to manage and track the use of staff time. This would not only allow the Fund and its organizational units to obtain a better picture of the actual costs of business activities but also indicate the areas in need of urgent action. Towards this end, Management plans to introduce a time-reporting system in 2013 with the aim of having the system fully in place by the end of 2015.
45. In implementing such a system, Management will carefully review the experiences of other international financial institutions (IFIs) as well as best practice in the private sector. Some IFIs, such as the World Bank, have instituted quite complex time-reporting systems while others, such as the Asian Development Bank, are using simpler systems focused on key business processes. A variety of IT software packages are available on the market that could improve the accuracy of self-reporting systems. All these options will be taken into account in designing and implementing the IFAD time-reporting system.
46. **Efficiency indicators for organizational business processes.** In addition to introducing a time-reporting system, all organizational units will be requested to develop, monitor and report regularly on agreed departmental and divisional business process efficiency indicators.
47. In this context, the Programme Management Department will be expected to monitor and report on costs of key components of the programme development and implementation cycle such as the cost of project/programme design; cost of quality assurance and quality enhancement; implementation support costs; supervision costs; and costs in relation to the size of programmes and projects (i.e. the main costs of activities budgeted under cluster 1). It will be difficult to assign ex ante targets for all such indicators as they need to be subject to meeting quality and effectiveness goals, and a reduction in the value of an indicator (e.g. costs of supervision) may not necessarily imply an improvement. Nonetheless, their close monitoring will allow Management to ensure that continuous efforts are made to rationalize the costs of each business activity while meeting agreed effectiveness targets. These indicators will be in addition to those listed under level 4 (operational effectiveness of the country programmes and projects) of the Results Measurement Framework (see document REPL.IX/3/R.4).
48. The Office of Strategy and Knowledge Management and divisions such as the Communications Division and the regional liaison offices will similarly be asked to monitor the costs of producing knowledge products, promoting global policy dialogue, and undertaking knowledge management activities, outreach and advocacy to ensure optimal resource use (cluster 2).

49. IFAD's service departments – the Financial Operations Department and the Corporate Services Department – will be asked to track the cost of providing key financial and administrative services (cluster 3) and will be expected to show continuous efficiency gains by cutting costs and reducing their share in the total administrative budget to the minimum.
50. Similarly, the Office of the Secretary, in consultation with the Executive Board, will be asked to monitor and report on key indicators and show continuous efficiency gains in cluster 4¹³.
51. A provisional list of efficiency indicators for departments/divisions is provided in annex I. As noted above, these are envisioned as internal management tools and will be reported in the quarterly performance reports prepared for Senior Management to enable required actions to be taken. However, Management will monitor and report regularly to the Executive Board – in the context of the annual Report on IFAD's Development Effectiveness (RIDE) – progress on key institutional efficiency measures (proposed below), as well as advances in increasing the efficiency of key business processes.

V. Measuring institutional efficiency under IFAD9

A. Measuring institutional efficiency in international financial institutions¹⁴

52. As international public development institutions, IFIs face unique challenges in, first, developing robust efficiency measures and, second, identifying relevant benchmarks for comparison purposes. This is in part explained by the fact that the goal of IFIs is not profit maximization per se but the achievement of specific development outcomes. In addition, the key parameters used in efficiency measures – such as IFI operating costs – are not entirely determined by market conditions but are often set by public policy. As a result, it is difficult to apply directly some of the most commonly used efficiency indicators in the private sector.¹⁵
53. Nonetheless, as custodians of public development funds, IFIs have the obligation to operate in the most efficient manner by ensuring that within the bounds set by public policy they strive to maximize the “goods” that they produce or, alternatively, minimize the costs of producing such goods. In the light of the unique challenges that they face, IFIs have found it difficult to come up with a single measure of efficiency. Rather, a number of efficiency indicators – most of them proxy indicators – are used at both the institutional and the business process

¹³ The direct cost of IFAD's support to Members' corporate governance activities is 8 per cent of the administrative budget in 2011. It includes costs of holding governing bodies meetings (Executive Board, Governing Council and subsidiary committees, etc.), with all the documentation, translation and interpretation services associated with them. The Executive Board has expressed interest in reducing these costs to focus more of IFAD's resources on its development operations.

The efficiency result to be achieved is a further material reduction in the real cost of support to Members' governance activities. This area is one in which Management's ability to define both inputs and outputs is highly constrained, and in which the direct engagement of the membership, to which the services are provided, is high.

Taking into account practices in other IFIs and in consultation with the Executive Board (which this cluster services) IFAD will seek to reduce the real level of these costs through, inter alia:

(a) reduction of the overall volume of reporting involving governing bodies;
 (b) reduction of document translation by increasing the range of documentation presented to the Executive Board in one of IFAD's working languages; and
 (c) reduction of the range of meetings of governing bodies and their committees for which simultaneous interpretation is provided.

¹⁴ It is important to distinguish at the outset between two sets of efficiency indicators applicable to IFIs. The first refers to the **efficiency of the programmes and projects that IFIs finance**. These are judged by indicators such as the economic rate of return on the capital being invested using standard cost/benefit analysis. The second set of efficiency indicators relates to **institutional efficiency**; these compare the outputs that the institutions produce (with the programme of loans and grants used as a proxy indicator) relative to the cost incurred in producing these outputs. This paper refers to the latter set of indicators.

¹⁵ One of the most commonly used efficiency ratios in the private sector is the ratio of operating costs to revenue.

level to give a more complete picture of institutional efficiency and the cost of “doing business”. This is the approach proposed by IFAD below.

54. Efficiency indicators used by IFIs can be grouped into (i) institutional efficiency indicators; and (ii) business process indicators. These indicators can also be either ex ante or ex post indicators. Institutional efficiency indicators seek to provide macro-level measures, while business process indicators focus on key business processes that have a direct bearing on the overall efficiency of the institution. Ex ante indicators seek to assure efficiency by specifying targets for resource allocations in the context of the budget process and planning of the annual programme of work, while ex post indicators measure actual efficiency outcomes. Some of the most common efficiency indicators used by other IFIs are presented in annex II for comparison purposes.

B. Institutional Efficiency Indicators under IFAD9

55. For IFAD9, the use of the two types of indicators is proposed, namely, institutional efficiency indicators and business process indicators. Both ex ante and ex post indicators are also proposed. The proposed institutional efficiency indicators (IEIs) will be incorporated under level 5 of the RMF. Business process indicators are viewed as primarily internal management tools for departments and divisions, and will be developed and reported only in the quarterly performance reports prepared for Senior Management. Progress on these indicators will, however, be reported in the annual Report on IFAD’s Development Effectiveness. Taken together, the indicators will give a comprehensive picture of the Fund’s progress in meeting efficiency targets.
56. Ex ante indicators have traditionally been used by IFAD to measure allocative efficiency (e.g. the efficiency ratio comparing IFAD’s annual administrative budget to planned POLG commitments). While these are useful in terms of setting targets, it is also important to gauge progress by measuring actual results (e.g. actual expenditure and actual loans and grants approved).

C. Institutional efficiency indicators

Ex ante indicators

57. **IEI.1** For ex ante indicators, it is proposed to use the following set of allocative efficiency indicators, with 2011 as the base. These would consist of: **share of budget allocation to clusters 1, 2, 3 and 4; ratio of budgeted staff positions in the four clusters to total budgeted positions; and ratio of budgeted staff in ICOs to budgeted staff in regional divisions.**¹⁶

Ex post indicators

58. **IEI.2** The introduction is proposed of an efficiency indicator that measures the ratio of **actual expenditures of the administrative budget plus management fees received to the IFAD-funded annual POLG, augmented by the value of the programmes and projects managed by IFAD but financed by other agencies.** This ratio, which will replace the currently used ratio of the administrative budget to the IFAD-financed POLG, has the advantage of being more comprehensive, as it includes the entire programme of work in which IFAD staff are engaged and also the management fees that the Fund receives for such work.

¹⁶ It is proposed to drop the current ex ante institutional efficiency indicator “**ratio of the administrative budget to the planned POLG**” for the following reasons. First the indicator does not include the significant number of projects that the Fund develops and manages on behalf of other institutions (such as the European Union and the Global Agriculture and Food Security Program). Second, the ratio does not include management fees and supplementary funds in the administrative budget. And third, it is ex ante and not ex post. A more comprehensive indicator that is reflective of the entire programme of work of the Fund and its administrative spend is proposed (IEI.2).

59. This indicator therefore constitutes a measurement of the efficiency of the **total** programme of work (defined in terms of loans and grants) in relation to the **total** expenditure of the Fund, regardless of the source of the financing. As IFAD puts greater emphasis on scaling up its programme of work and its development impact, and as external sources of funding account for a greater share, this indicator will become a more accurate measure of institutional efficiency than the traditional one used to date. It is also proposed to make this indicator ex post and measure it on a three-year rolling basis.
60. **IEI.3** A significant part of the annual administrative budget of the Fund consists of programme development and implementation costs that can be considered as technical support to developing Member States. It is therefore proposed to introduce an indicator that measures **the ratio of annual administrative costs minus such technical support costs to the integrated POLG** (that is, augmented by the value of the programmes and projects managed by IFAD but financed by other agencies). As other IFIs use trust funds to finance a considerable part of such technical support or share their costs of administration with their “hard windows” this ratio could be of interest for the purpose of comparison among IFIs.
61. **IEI.4** A fourth efficiency indicator is proposed, which would take into account the fact that the Fund’s annual budget is used not only to prepare new programmes and projects but also to manage a large and increasing portfolio. The indicator would measure the ratio of **the actual expenditures of the administrative budget plus management fees to the ongoing total portfolio**.
62. **IEI.5** A fifth efficiency indicator that is being proposed is **the ratio of the administrative costs to disbursements**. This is a ratio that is increasingly being used by other IFIs and can be seen as a good proxy indicator of the cost of actual development work on the ground.
63. **IEI.6** A sixth efficiency indicator that is being proposed is the ratio of **GS staff costs to total staff costs** using 2010 as the base. As the cost of GS staff is judged to be very high, the progress being made in containing and reducing these costs will be monitored using this indicator. In constructing this index and setting targets, both the differential needs of departments for GS staff and the different functions that GS staff perform will need to be represented.
64. **IEI.7** A seventh institutional ratio that is being proposed is the “leveraging ratio”, i.e. **the volume of resources mobilized by the Fund (international and national) to finance or cofinance IFAD-supported projects**. Although this measure can be taken as a measure of effectiveness, it can also be seen as a measure of the efficiency of a dollar spent by IFAD in attracting new resources. As there could be considerable annual variations here, the use of a three-year moving average is suggested.
65. The various IEIs to be included under RMF level 5, incorporating indicators carried over from the IFAD8 RMF and the new or revised ones proposed above, are presented in table 1. Provisional targets for each indicator are also proposed, to reflect the efficiency gains expected in the use of the Fund’s resources from the various actions proposed under IFAD9 to enhance the efficiency of the Fund.

Table 1

Level 5 Institutional effectiveness and efficiency indicators for the IFAD9 RMF

<i>Indicators to be carried over from IFAD8 RMF</i>	<i>Baseline</i>	<i>Target for 2015</i>
Percentage achieved of replenishment pledges	NA	100
Number of actions overdue on high-priority internal audit recommendations (baseline 2011)	21	15
Percentage of workforce from Lists B and C Member States (baseline 2011)	40	tracked
Percentage of women in P-5 posts and above (baseline 2011)	28	35
Staff engagement index (baseline 2010)	69	75
Time to fill professional vacancies (days) (baseline 2011)	144	100
New or revised (ex ante) indicators		
• IEI.1 (a) Share of budget allocations to (baseline 2011)		
○ cluster 1	62	65
○ cluster 2	7	9
○ cluster 3	23	20
○ cluster 4	8	6
• IEI.1 (b) Ratio of budgeted staff positions to total budgeted positions in (baseline 2011)		
○ cluster 1	57	61
○ cluster 2	7	9
○ cluster 3	25	22
○ cluster 4	11	8
• IEI.1 (c) Ratio of budgeted staff positions in ICOs to budgeted staff in country programme divisions (baseline 2011)	38	45
New or revised (ex post) indicators		
IEI.2 Ratio of actual administrative expenditures (including expenditures financed by management fees) to the IFAD-funded annual POLG augmented by the value of the programmes and projects managed by IFAD but funded by other agencies (3-year average, baseline 2008, 2009, 2010)	14.7	12.5
IEI.3 Ratio of actual administrative expenditures (including expenditures financed by management fees) less actual expenditures on “technical support” to developing Member States to the integrated POW (3-year average, baseline 2008, 2009, 2010)	12.5	10.6
IEI.4 Ratio of the administrative budget expenditures plus management fees to the total ongoing portfolio (3-year average, baseline 2008, 2009, 2010)	2.16	1.8
IEI.5 Ratio of actual administrative expenditures (including expenditure financed by management fees) to annual disbursements (3-year average, baseline 2008, 2009, 2010)	22.1	18.8
IEI.6 Ratio of actual costs of GS staff to total staff costs (baseline 2010)	30	25
IEI.7 Ratio of resources mobilized by IFAD from external sources (international and national) to finance or cofinance IFAD-supported projects (3-year average, baseline 2008, 2009, 2010)	1.3	1.8

VI. Summary and conclusions

66. Management has prepared this paper in response to the request of IFAD9 Consultation members. To provide a proper context for the proposals made, the paper has first reviewed the actions taken by Management under the CRA to enhance the efficiency of the Fund under IFAD8 and the progress made, as measured by the RMF for IFAD8.
67. Management has presented proposals to further enhance IFAD’s efficiency under IFAD9 and has suggested new efficiency indicators. In the light of the ongoing corporate-level evaluation of the Fund’s efficiency, it is recommended that these proposals be viewed as interim in nature, to be validated and supplemented as necessary when the evaluation is completed in 2012.
68. The paper has discussed the CRA launched in 2009, with the objective of making IFAD a more effective, efficient and agile institution. Significant changes have been

registered under the CRA: the Fund's organizational structure has been strengthened; its human and financial resources are being aligned with its strategic goals; a comprehensive HR management reform programme has been launched; and IFAD's financial and administrative services have been strengthened.

69. Measured against the efficiency targets set in the RMF for IFAD8, the Fund has surpassed its efficiency target for 2012 and has made significant progress on the proportion of staff assigned to operations, and on the reduction in the time for withdrawal processing.
70. Under IFAD9, Management is proposing a set of complementary measures to improve the efficiency of the Fund. First, it will consolidate the CRA to establish a solid organizational and policy structure for enhanced efficiency. Second, it will introduce new management tools – a time expenditure reporting system and efficiency indicators for business processes – with the aim of promoting efficiency gains throughout the Fund by containing costs and reducing them wherever possible. In addition a new set of institutional efficiency indicators will be included in the RMF for IFAD9. Provisional targets for these indicators have also been set to reflect the expected efficiency gains from the proposed actions.
71. Annual reports will be provided to the Board on the progress being made to enhance the efficiency of the Fund, as measured by the institutional efficiency indicators. These actions are expected to contribute to a stronger culture of cost-consciousness and efficiency throughout the Fund for IFAD9.

Provisional efficiency indicators for IFAD business processes

Programme Management Department (cluster 1)
<ul style="list-style-type: none"> • Average cost of project development • Average cost of supervision and implementation support • Percentage of supervision/implementation support expenditures through ICOs • Average US\$ value of withdrawal applications
Financial Operations Department (FOD) (cluster 3)
<ul style="list-style-type: none"> • Percentage of payments processed within 1 working day • Net investment return subject to established risk parameters • Average number of loans per senior loan officer • Average number of days for disbursement processing • Mid-year review of budget performed by 31 August
Corporate Services Department (CSD) (cluster 3)
<ul style="list-style-type: none"> • Average time to send long list to recruiting division • Average cost incurred by all departments for staff recruitment • Average cost of staff training • Savings achieved through joint tenders with RBAs • Transaction costs in purchasing goods and services • Average days for procurement • Average time for IT incidence resolution
Office of Strategy and Knowledge Management (SKM) and Communication Division (cluster 2)
<ul style="list-style-type: none"> • Average cost of different publications (occasional papers, working papers etc.) • Average cost of knowledge sharing events • Average time for production of publications
Office of the Secretary (cluster 4)
<ul style="list-style-type: none"> • Average cost of document preparation for governing body meetings • Total cost of translation for governing body meetings

Efficiency indicators used by other IFIs

Table 1a
African Development Bank (AfDB)

<i>Category</i>	<i>Indicators</i>
Human resources	<ul style="list-style-type: none"> • staff premature attrition rate • share of women among in professional staff • vacancy rate • operational professional staff
Business processes and practices	<ul style="list-style-type: none"> • lapse of time for bidding completion • lapse of time for procurement • administrative costs per UA 1 million disbursed
Information technology	<ul style="list-style-type: none"> • time availability of Wide Area Network in field offices • average time taken to resolve client IT requests
Decentralization	<ul style="list-style-type: none"> • operations professional staff based in field offices • projects task managed from field offices
Transparency	<ul style="list-style-type: none"> • project audits submitted on time

Source: AfDB Bank Group Results Measurement Framework (2010)

Table 1b
Asian Development Bank (AsDB)

<i>Category</i>	<i>Indicators</i>
Human resources	<ul style="list-style-type: none"> • budgeted professional staff and national officers in operations departments • budgeted professional staff and national officers in resident missions • representation of women professional staff • staff engagement survey results
Budgetary resources	<ul style="list-style-type: none"> • internal administrative expenses per US\$1 million of public and private sector project approval • internal administrative expenses per project approval (US\$ million in 2000 constant prices) • internal administrative expenses per US\$1 million disbursement (US\$'000) • internal administrative expenses per project under implementation (US\$'000 in 2000 constant prices)
Business processes and practices	<ul style="list-style-type: none"> • average time from loan approval to first disbursement in sovereign operations (months) • average loan (sovereign operations) processing time (months) from fact finding to loan approval • proportion of loans and grants administered by field officers (percentage)

Source: ADB Results Measurement Framework (2008)

Table 1c
World Bank

<i>Category</i>	<i>Indicators</i>
Speed and cost	<ul style="list-style-type: none"> • time from project concept note to approval for investment lending • time from project concept note to approval for investment lending in FCCs • problem projects restored to “satisfactory” status within 12 months • average project preparation costs • average project implementation support costs
Decentralization	<ul style="list-style-type: none"> • decentralization of higher level staff to the field • decentralization of task management to staff in the field working on (a) fragile situations and (b) non-fragile situations
Mapping for results	<ul style="list-style-type: none"> • IDA projects that are geo-coded

Source: Results Measurement System for IDA16 (2011)