AFRICAN DEVELOPMENT FUND

Progress Report:
IDENTIFYING COMPARATIVE ADVANTAGE OF THE AFRICAN DEVELOPMENT FUND

ADF-X MID TERM REVIEW
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OPERATIONS POLICY AND COMPLIANCE DEPARTMENT

Acronyms

ADB	African Development Bank
ADB Group	African Development Bank, African Development Fund, and Nigeria Trust Fund
ADF	African Development Fund
ADF X	Tenth replenishment cycle of the African Development Fund
AFD	Agence française de Développement
AU	African Union
AUC	Commission of the African Union
Bank Group	ADB Group
CSP	Country Strategy Paper
DFID	Department for International Development (of the United Kingdom)
EC	European Commission
ECA	United Nations Economic Commission for Africa
EIB	European Investment Bank
GEF	Global Environment Fund
IDA	International Development Association (affiliate of The World Bank)
IFAD	International Fund for Agricultural Development
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JAS	Joint Assistance Strategy
JBIC	Japanese Bank for International Cooperation
MDB	Multilateral Development Bank
MDFI	Multilateral Development Finance Institution
MDGs	Millennium Development Goals
MIC	Middle-income country
NEPAD	New Partnership for Africa’s Development
RMC	Regional Member Country
TFIR	Task Force for Institutional Reforms
UNDP	United Nations Development Programme

ADF-X MID-TERM REVIEW

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I. Introduction

Participants in the consultations on the Tenth Replenishment of the African Development Fund (ADF-X) asked Management of the African Development Bank (ADB) Group to undertake further work to clarify the comparative advantage of the Fund in order to identify specific areas of greatest effectiveness. Management was requested to submit, at the mid-term review of the ADF-X, a progress report on its work.[1,*]

This report briefly identifies key issues around the Bank Group's niche and comparative advantage; discusses steps taken to position the institution for greater focus and impact; and outlines additional significant work-in-progress.

II. Background and Key Developments

The year 2005, known as the 'Year of Africa', saw a number of important initiatives by the international community to deepen further its engagement in Africa's development, and to support the continent's own vision as laid out in the New Partnership for Africa's Development (NEPAD). Substantial commitments were made, including a promise to double aid to Africa, reduce transactions costs, and open markets. There was common assent, underlined in the report of the Commission for Africa[2] and the conclusions following the dialogue between African and G8 Leaders at the Gleneagles Summit,[3] that substantially greater effort and partnership were needed. An enhanced role for Africa's institutions, including the ADB Group was explicitly called for.

In recent years, there has been a deepening commitment on the part of African countries to policy change accompanied by an improved regional institutional architecture featuring greater African ownership, as evidenced by the African Union (AU), NEPAD, and the African Peer Review Mechanism (APRM). All share a common goal: socio-economic transformation, attaining the internationally agreed Millennium Development Goals (MDGs) by a combination of an improved investment climate, stronger institutions and governance, effective mobilization of Africa's own domestic resources as well as those of the partners, all within the overall framework of deeper African integration into the global economy.

At the same time, there has been a significant increase in the number of donors, including non-state actors, benevolent funds and important new multilateral initiatives. All of these developments, while welcome, have highlighted the need to reassess critically the relative institutional niches and capacities, and to adapt institutional strategies and priorities accordingly. On its part, the Bank Group, operating in 53 countries –often under challenging conditions– appreciates the necessity to better focus its efforts in order to enhance its impact.

A major independent evaluation of the operations of the African Development Fund,[4] spanning the period 1996-2004, pointed to important areas of "unfinished business". These

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[*] A list of references is provided at the end of the report.

include the need to increase field presence, invest in economic and sector work, tackle understaffing and train staff, strengthen the review process, revitalize the research function of the Bank, sharpen the country focus, have a clearer analysis of where the comparative advantage of the Bank lies, and make results-based management effective. The evaluation defined three alternative scenarios for the Bank Group:

- Maintaining the status quo;
- Selecting a number of niches commensurate with available resources and capacities
- Functioning as the leading development finance institution in Africa

Assessing these scenarios and their implications for the Bank and its member countries has been the focus of considerable effort since the conclusion of the ADF-X replenishment consultations. Early in 2006, Bank staff prepared a concept paper outlining a process for identifying the areas of comparative advantage of the Bank Group. The Boards of Directors have approved comprehensive institutional reforms proposed by Management on the basis of extensive reflection and analytical work by a major Task Force on Institutional Reform (TFIR). Early in October, the President appointed a High-Level Panel to advise the Bank on strategic issues and the operational strategies and shifts these issues raise. Separately, Management has been pursuing on-going dialogue, both formally and informally, with key development partners to deepen its own understanding of relative strengths, strategic directions, and institutional priorities. In addition, Management has benefited from the insights of independent analysts including, most recently, an important contribution from the Center for Global Development.

III. Internal Actions

1) Action Plan to Improve the Implementation of ADF Operations

Management has made concerted efforts to implement the Action Plan to Improve the Implementation of ADF Operations, endorsed by the ADF-X Deputies in Copenhagen, in December 2004. Measures taken have focused on: decentralization; Bank Group coordination with other donors at the country level; linkages between lending and performance; alignment of Bank Group operations to country strategic priorities; operational selectivity; quality at entry and implementation; use of participatory approaches during all stages of the project cycle; research and knowledge generation; staff training in critical analytical skills and in managing for results; and focus on quality of the Bank Group portfolio and its development effectiveness. The measures implemented, addressed in large part to the "unfinished business" identified in the Independent Evaluation report, have no doubt contributed to strengthening the comparative advantages of the Bank and the Fund.

2) Implementation of the Paris Declaration

An Action Plan for harmonization, alignment and managing for development results approved by the Boards in April 2006 spelt out measures to implement the Paris Declaration commitments to enhance the effectiveness of development assistance.[5] Technical Working Groups have been established in the priority areas of financial management and analysis; procurement; environmental assessment; and evaluation cooperation to implement broadly accepted good principles and practices on poverty reduction and progress towards the MDGs. Guidelines for use of sector-wide approaches (SWAps) and development budget support financing were approved by the Boards of Directors in April 2006.[6]

The Bank Group has participated actively in preparing Joint Assistance Strategies for Uganda, Tanzania, and Zambia as well as in aid harmonization activities in Ethiopia and Mozambique.[7] This work has already begun to help focus the Bank's operational engagement in more sharply defined strategic areas. On average, under these JAS, Bank Group anticipates that operational interventions will be limited to no more than three specific sectors per country.

3) Task Force for Institutional Reforms

In October 2005, the President created a Task Force for Institutional Reforms (TFIR) whose mandate was to examine specific issues related to institutional effectiveness, including: (1) human resources management; (2) operations structure and focus; (3) lending and non-lending business processes; (4) branding and positioning; and (5) knowledge management. Working Groups were established to provide a critical and thorough examination of the issues in each of the five areas, in a spirit of openness and transparency. The composition of the TFIR and the Working Groups ensured broad vertical and horizontal representation. The entire staff body was encouraged to participate in the process, through representation of the staff council, submission of inputs and ideas via e-mail, suggestion boxes and on-line surveys, and participation in town hall meetings.

The overarching objective of the exercise was to identify the structure, tools and incentives needed to unlock the Bank Group's tremendous potential and creativity and enable it better to fulfil its development mandate for Africa. The reform proposals generated by the Working Groups and the TFIR comprehensively addressed the full range of issues classified as "unfinished business" in the Independent Evaluation. The proposals resulting from deliberations supported the following (among others):

- Restoration of a strong country focus of Bank operations, with sectoral interventions driven by country programs and strategic priorities;

- A significant boost to the Bank Group's effort in development knowledge generation and dissemination;

- Drastic reform of the Bank's and Fund's business processes and delegation of authority to increase efficiency and responsiveness to clients and facilitate accelerated implementation of projects and programs financed by the Bank Group;

- Significant strengthening of the capacities, responsibilities, and authority of the Bank's Field Offices to more effectively project the Bank's and Fund's presence on the ground in the regional member countries, enhancing dialogue on development issues with stakeholders in member countries, including stronger coordination with other development agencies on the ground;

- Critically addressing issues in improving the skills mix, raising the projects-to-staff ratio in the Operations Complex, and improving incentives for staff productivity, accountability, and work quality; and

- Clarifying the sources of comparative advantage of the Bank Group and enhancing its brand value as Africa's premier development finance institution.

Acting on the recommendations of the TFIR, the Boards of Directors of the Bank and Fund approved a major restructuring in April 2006. The institutional reforms were aimed at the overarching objective of "enhancing development effectiveness and delivering better results for RMCs" by restructuring the Operations Complex, strengthening the Office of the Chief Economist, enhancing human resource management and streamlining the Bank's and Fund's business processes.[8] The institutional reforms were launched in order to:

- Consolidate the Bank's achievements and reposition the institution for greater effectiveness and efficiency;

- Meet the evolving development challenges of RMCs; and

- Provide leadership in areas where the Bank and Fund have or can develop comparative advantage, especially the areas mandated to it by RMCs and the international community, including responsibilities assigned to the Bank under the NEPAD Framework.

The new organizational structure, implemented on July 1, 2006 is aimed at enhancing country focus and selectivity while strengthening sector depth and operational quality assurance. The first objective is expected to be achieved by the newly established Regional Departments which oversee country teams as single focal points for the Bank's and Fund's country strategies, dialogue and programming. The 2007 operational program –which is significantly more focused and selective– marks clear progress in this effort.

The second objective –strengthening sector depth and technical quality– is expected to be achieved by concentrating Bank professionals in key operational sectors and increasing accountability for results. The human resource constraints highlighted in the Independent Evaluation report are real and significant. In the short term, however, relief is expected to come by streamlining non-operational complexes while improving their productivity, resulting in a freeing of staff resources to be transferred to the Operations Complex; a shift towards larger and fewer operations; enhanced professional training of staff; and targeted recruitment to fill vacancies. In the longer term, Bank Group staff resources will be strengthened, in part by an overhaul of the incentives system, including the phasing-in of a dual career path that rewards both technical skills and managerial skills. Furthermore, the new Human Resources Strategy, expected to be discussed by the Board before year-end, will provide a framework for aligning staff incentives with the Bank's development goals, and promoting productivity and results.

The goal of the reforms is to enhance the comparative advantages and reduce or mitigate existing obstacles to delivering on them. Key aspects of comparative advantage, outlined in **Box 1**, include the Bank Group's uniqueness as a development finance institution established by the African countries more than 40 years ago "to contribute to the development and social progress of its [regional] members individually and jointly"; its location relative to its clientele; its acquired operational experience; and the competence, skills, and composition of its human capital.

Box 1

Some Sources of Comparative Advantage of the African Development Bank Group

African Character: The ADB Group enjoys a unique position as a development finance institution with a mandate and perspective focused exclusively on the African continent. Its uniqueness reflects its history, location, ownership structure, corporate governance, clientele, operational experience, and the composition and character of its staff as a development finance institution established by 23 African States more than 42 years ago "to contribute to the economic development and social progress of its [regional] members individually and jointly". ADF was established 33 years ago by the ADB and key Partner States to assist the Bank "to provide … financing for the benefit of those members whose economic situation and prospects require such financing to be on concessional terms."

Composition of the Staff: ADB Group staff and managers have comparable education and work experience as staff from other MDFIs. The range of nationalities, culture and language reflecting Africa's diversity give the Bank Group an edge in relating to the main actors in Africa's development – governments, civil society, micro, small and medium-scale producers and entrepreneurs. At the same time, the sizeable and growing proportion of professionals recruited from non-regional member countries ensure continuing openness to new ideas and international best practices. The increasing attractiveness of a career at the Bank is demonstrated by the number of applications for managerial positions from a broad cross-section of the 77 member countries of the Bank Group.

Credibility: Staff's understanding of African countries earns the Bank and Fund trust from the regional member countries in areas such as regional integration, governance, social development, gender equity, environment, etc.

Strong African Voice: The ownership structure of the Bank Group, reflected in the distribution of voting power and the requirement that the Bank President should always be a national of a regional member country, gives the RMCs a strong voice in the Bank and Fund compared to The World Bank and IDA, for example. Thus, the ADB Group provides a forum for a more balanced partnership and exchange of ideas on challenges, opportunities, and necessary policy measures for Africa's development.

Strong Financial Base: The ADB, which contributes 50 percent in the resources of the ADF, has earned a Triple-A rating from leading international credit rating agencies (S&P's, Fitch Ratings, Japan International Credit Rating Agency Ltd, etc) – valuable recognition of financial soundness, prudent management and effective financial controls put in place since 1995.

Mandates: The historical mandate of the ADB Group is to mobilize resources internally and externally, and promote regional cooperation and economic integration for the development of Africa. Countries want it to play a key role in the establishment of the African Economic Community. The Bank's and Fund's experience in financing regional and multinational operations and strengthening the capacity of Regional Economic Communities (RECs) date as far back as the early as 1970s. The Bank has been assigned important responsibilities under the NEPAD Framework in areas of Infrastructure, Banking and financial standards, Agriculture, Environment, Governance, and resource mobilization.

Convening Authority: The ADB Group has the capacity to convene government officials, private sector and civil society actors from its regional and non-regional member countries to discuss and reach collective decisions on important development issues.

Partnerships: ADB is an active participant in African continental and regional political forums. It is part of the Joint Secretariat with the Commission of the African Union and the UN Economic Commission for Africa. It has developed a comprehensive partnership framework with The World Bank and the IMF, and collaborative arrangements with major United Nations agencies, the WTO, bilateral, and non-governmental agencies.

Flexibility: ADB Group's relatively small size provides it, in principle, with greater capacity for speed and institutional flexibility. However, the TFIR and other analyses indicate that this potential comparative advantage has been eroded by bureaucratic obstructions that are mostly internally generated.

At the same time, however, it is important to note that a number of weaknesses, outlined in **Box 2**, continue to impede the Bank Group's effectiveness and undermine its delivery on its comparative advantages. These include its limited operational resources, both financial and human; past neglect of knowledge generation; lack of effective presence at the country level; and, cumbersome business processes. The TFIR recommendations are aimed at enhancing sources of comparative advantage while directly tackling weakness that Management can eliminate.

Box 2
Constraints to Capitalizing on Comparative Advantage

Weak Financial Base: The ADB Group has much lower financing capacity in proportion to the resource needs of its regional member countries, and in comparison with peer Multilateral Development Banks, such as The World Bank, the Asian Development Bank, or the Inter-American Development Bank. The commitment capacity of ADF is still of the order of one-third of the financing capacity of IDA's Africa program.

Weak Human Capital Base: ADB Group has the lowest staff-to-project ratio and staff per borrowing country among MDBs. Data on institutional resources available to the ADB Group in proportion to the scope of the mandate spelled out in the ADB and ADF Charters and compared to other MDBs shows that the Bank Group is at a relative disadvantage.

Institutional Resources	AfDB	WB	IADB	AsDB
Average Size of Concessional Operation approval (Thousand US$)	23	52	-	23
Number of Staff per Project Approved	8.1	36.67	22.23	31.27
Number of Staff per Client Member Country	18.04	61.97	73.54	63.43
Number of operations per Task Manager	4.31	0.88	1.63	-

Weak Capacity in Knowledge Generation: Very little effort in the past has been devoted to development research or economic and sector work due to tight administrative budgets and small size of research staff. Yet the development effectiveness of Bank Group operations and increasingly important advisory services both depend on quality knowledge generation.

Over-concentration: Stakeholders in member countries have criticised the lack of local presence of the ADB Group and cited it as a critical factor that raises transactions costs, limits country-level interactions, and undermines the effectiveness of Bank assistance. Decision-making authority for even routine matters was for many years largely centralized and not delegated.

Difficult Operational Contexts: ADF is active in a region that has faced protracted political, social, economic and environmental challenges for decades. It is the only region in the world where the incidence and depth of poverty both have continued to increase since 1980. There has been a high incidence of political instability and conflict. A high ratio of regional member countries –as much as one-third– have often been in non-accrual status, under sanctions that disrupt normal project cycle activities. A number of countries have no active portfolios, as a consequence. A large number of the ADF-eligible countries are classified as "fragile states", including countries that recently emerged from conflict.

Conflicting Demands: The Center for Global Development, in a recent study,[9] observes that the combined pressures from donors and client member states exacerbated by lack of agreement on strategic choices amongst the two sets of shareholders, and conditionality at successive ADF replenishments, both have muddied the Bank's mission, fragmented its operations, and made it a much less effective development agency than it could be.

Cumbersome Business Processes: Clients find the business processes of the Bank and Fund cumbersome, time consuming and costly. They contribute little to accountability; but undermine implementation efficiency and render the ADB Group less attractive than other agencies as a source of development financing or advisory services. The low thresholds of operational financing at which Board approval is required and the associated number of Board meetings impose particularly high transaction costs in the Bank and inevitably slows the pace of operations.

4) Stakeholder Consultations

Missions to Member Countries

The President has undertaken a program of stakeholder consultations, with visits to 16 RMCs[*] that account for nearly one-half of the ADF allocation, and has inspected 42 projects. The visits provided opportunities for interaction with Government leaders, private sector actors, development partners, other stakeholders and the Bank Group's Field Office staff to listen to their perspectives on strengthening country presence. From the discussions, it was clear that RMCs were looking for more than resources from the Bank and Fund. Countries also expected vigorous policy discussions – and a different perspective from that of other development agencies. The stakeholders called for streamlined business processes and urged greater effective presence in the field.[10] In the same period, the President has undertaken missions to a number of non-regional member countries[†] and held discussions with Ministers responsible for development cooperation and senior officials of bilateral assistance agencies, on issues relevant to options for the future orientation of the African Development Bank Group in general and the Fund in particular.

Regional Meetings

Stakeholder consultations have also taken place at important regional fora, such as the Meeting of the African Ministers of Finance,[11] in Tunis, in November 2005, and the Annual Meetings of the Governors of the African Development Bank Group, in May 2006 in Ouagadougou. In addition to key decision-makers from the regional and non-regional member countries, other participants included senior officials from sister regional, and global multilateral institutions – such as the ECA, AUC, NEPAD Secretariat, sub-regional organizations, the International Monetary Fund, the World Bank, IFAD, the GEF, etc.

The President used the occasion of the Annual Meetings to outline key elements of a new strategic vision for the Bank and Fund and to get feedback from the Governors:[12]

- financial solidity;
- strong corporate governance;
- relevance to all member countries;
- capacity to deliver development outcomes;
- selectivity and focus;
- support to capacity building and accountability in member countries;
- partnership with the private sector; and
- institutional reform and adaptation.

The President stressed the importance of developing strong intellectual leadership on development issues in Africa, matching the Bank Group's AAA international credit rating. Close linkage was drawn between selectivity and focus, on the one hand, and demonstrable excellence in the services delivered by the Bank Group, on the other. Management committed itself to address two fundamental questions:

- What is it that the Bank Group is best suited to do – what are those areas where it should build excellence?

[*] Burkina Faso, Côte d'Ivoire, Ethiopia, Gabon, The Gambia, Kenya, Lesotho, Liberia, Nigeria, Mali, Mozambique, Senegal, Sudan, Swaziland, and Tanzania.

[†] Canada, France, India, Japan, Norway, Republic of Korea, Portugal, United Kingdom, and United States of America.

- How best can it collaborate and create synergies with other agencies in those areas where it is not in the strongest position?

Participants in the meetings identified priority areas where they thought the Bank and Fund could play an increasing role, notably, in support of:

- **Infrastructure**, including regional transport, communications, energy and power, and water supply and sanitation;
- Effective and accountable **public institutions** in the RMCs;
- **Fragile states** and **post-conflict countries**;
- **Enabling policy environments** for public-private partnerships, and private sector development; and
- **Science & technology** and vocational training.

Partnership Consultations

Over the years, Memoranda of Understanding (MOU) or other protocols have been concluded with numerous organizations to strengthen partnership based on cooperation, complementarity and division of labour.[13] The effectiveness of many of the arrangements has been mixed, for reasons both internal and external to the Bank.

In the last twelve months, the Bank has initiated meetings at different levels with a number of bilateral and multilateral agencies to review shared experience from these arrangements. The meetings focused on the respective areas of comparative advantage of the Bank Group and partner institutions as a basis for harmonization, complementarity, and improved division of labour. In general, there was agreement that: cross-institutional collaboration has been neither as effective nor as prioritized as it could or should have been; deeper and more selective partnerships are both possible and urgently needed; and, intensified management engagement on all sides is needed in the period ahead. Below are a few résumés of such reviews:

- **The World Bank Group.** At discussions in Tunis between the ADB President and the Vice President of the World Bank's Africa Region Department, a number of sectors and cross-cutting issues were identified for further reflection. These included: infrastructure and regional integration, governance and capacity development, private sector development, agriculture and rural development, post-conflict and fragile states, natural resource management, and knowledge sharing and research.

- **AFD.** Workshops were organized in December 2005, to discuss collaboration between the two institutions, based on their respective comparative advantage, in the areas of NEPAD infrastructure, water and sanitation, and private sector development. In the area of water and sanitation, they agreed to collaborate at project/program level in 5 countries (Mauritania, Niger, Togo, Cameroon, and Chad). Other areas included collaboration on environment and social responsibility, tourism and heritage, women entrepreneurship, and workers' remittance.

- **DFID.** The Bank Group and DFID held a high-level retreat in Tunis to review their Enhanced Collaborative Initiative (ECI) established within the framework of the March 2005 MOU between the two institutions. They shared experience in the four pilot countries (Uganda, Ethiopia, Mozambique, and Ghana); the harmonization agenda defined by the Paris

Declaration; and collaboration on fragile states, governance, infrastructure, water and sanitation.

- **ECA.** A high-level review retreat between ECA and ADB took place in Tunis in September 2006. The two institutions agreed to focus their interventions in areas that add value and bring greater development impact, while forging synergies and avoiding duplication. They identified as areas of collaboration, the following: knowledge management, capacity building and statistics; governance, post-conflict and fragile states; agriculture, natural resources, energy, environment, water and sanitation; regional integration, trade, and private sector development; and gender equity.

- **UNDP and IFAD.** High-level retreats between the Bank Group and UNDP and IFAD, respectively, are scheduled for early 2007. These retreats will build on the much more extensive senior-level dialogues that have been under way over the past year.

- **JBIC.** Bank officials and their counterparts from JBIC, in 2005, negotiated on the modalities for collaboration in the areas infrastructure and private sector development, with special emphasis on support to small and medium-scale enterprises, within the framework of the Enhanced Private Sector Assistance for Africa (EPSA), a new initiative by the Government of Japan. In line with the Private Sector Development Strategy of the AfDB Group, the operational objectives of EPSA are: creating an enabling environment; strengthening financial systems; building competitive infrastructure; promoting the development of micro, small and medium scale enterprises; and, promoting trade and foreign direct investment.[14]

- **EC and EIB.** The Bank has an MOU with and the European Commission and the European Investment Bank in which the priority areas of cooperation among the three institutions have been identified. These are: implementation of the HIPCs Initiative; the support to PRSP processes and macro-economic reforms in the RMCs; enhancing regional cooperation and integration and supporting the NEPAD framework; private sector development; and public expenditure management. Since November 2005 there have been a high-level meeting, consultations at the level of staff of the three institutions, and exchange of letters on strengthening collaboration in financing infrastructure.

From résumés of a sample of partnerships, above, it should be clear that the on-going dialogue between the Bank Group and partner agencies is resulting in a more effective leveraging of joint efforts, establishing clearer patterns of collaboration in improving service delivery to RMCs based on a better division of labour, and improving exchange of information on country operations.

5) High-Level Panel

Early October 2006, the Boards of Directors endorsed the establishment of a High-Level Panel to advise Management on the strategic role of the Bank Group. Co-chaired by Mr. Joachim Chissano, former President of Mozambique, and Mr. Paul Martin, former Prime Minister of Canada, the 12 members of the Panel, serving in their personal capacities, shall advise the Bank Group on strategic challenges and opportunities and on key strategic choices that might be considered for the medium to long term.

While respecting the full independence of the Panel, the Boards of Directors will be closely associated with its work. The Panel will meet a number of times over the period between October 2006 and September 2007. It will consult widely with shareholders within Africa and among partners. It will have a key advocacy role, building a consensus of support for the vision and for a long term strategy for its realization. Informal consultations will be held between the Board and the co-chairs of the Panel and Management. To ensure continuous dialogue with the Board, progress reports will be regularly provided and views exchanged. Specifically, the President will deliver to the Governors of the Bank Group, at their Annual Meetings in May 2007, an Interim Report based on the findings of the High-Level Panel. The High-Level Panel will present its final recommendations at the conclusion of its work in late 2007.

The High-Level Panel will be supported in its work by a technical team of very experienced and senior individuals coordinated by the President's Office. The team will provide advice and analysis to the Co-Chairs and to the Members of the Panel. In so doing, they will draw fully on the expertise and experience of the Bank and its staff. The Co-Chairs are expected also to consult with the Bank's shareholders in developing their recommendations.

IV. Way Forward

Substantial progress has already been made towards identifying the areas of comparative advantage of the Bank Group. Management today is firmer than ever before in its commitment to selectivity. Guiding principles have been established. Internal discussion on strategic priorities and the process of selecting niches within these areas where the Bank or the Fund should concentrate their scarce resources is well advanced. Implementation of the recommendations by the Task Force on Institutional Reforms –in particular, organizational restructuring– is tackling the "unfinished business" left over from previous reforms. These efforts will either directly strengthen the comparative advantage of the Bank and the Fund, or strip away some of the current obstructions that prevent those comparative advantages from emerging as fully as they might.

Looking ahead, the Bank Group will apply the guiding principles, objective analytical process, and the insights of external contributors to identify concrete areas of comparative advantage for the medium-term and long-term. In the final year of the ADF-X program, Management will complete the implementation of the reform recommendations by the TFIR; update, refine and sharpen the vision and mission statement of the Bank Group with advice from the High-Level Panel; complete the identification of areas of comparative advantage based on the new orientation arising from the work of the High-Level Panel; and take concrete steps to launch the repositioning of the Bank and the Fund into those areas. Specifically, the Medium Term Strategic Plan of the Bank for the period 2008-2012, which will be prepared in the second half of 2007, will be anchored on the identified areas of focus of the Bank and the Fund.

It is important to stress, however, that while action is underway to strengthen the Bank, realization of its potential will have to be a joint undertaking with all its regional and non-regional member states. In short, that shareholders and management are jointly responsible for ensuring success, and will make progress best by focussing attention and energy on the key issues in further strengthening the comparative advantage of the Bank in areas of critical importance to accelerating socio-economic development and poverty reduction throughout Africa.

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