August 3, 2012
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Institutional Effectiveness: Improving Delivery Capacity in a Changing Context

Discussion Paper

ADF-12 Mid-Term Review
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Executive Summary

This paper responds to the request by the African Development Fund Deputies for an update at the Twelfth General Replenishment of the African Development Fund (ADF-12) Mid-Term Review on the implementation and impact of the Bank Group's ongoing institutional reforms, as well as on the specific measures taken to achieve the related objectives during the ADF-12 period.

The Bank has demonstrated resilience against a background of diverse challenges in its operating context ranging from its temporary relocation from Abidjan to Tunis, to crises affecting its Regional Member Countries (RMCs) as well as its other shareholders. Since 2008, a series of economic and political crises have affected the continent, with individual countries such as Tunisia, Egypt, Côte d'Ivoire, Mali and Guinea Bissau facing specific difficulties. The sovereign-debt crisis in the euro zone and the accompanying austerity measures have had implications for the level of support that the Bank shareholders, especially non-regional members, can provide. For the Bank Group, these external developments have presented a number of challenges as well as opportunities, requiring its steady focus, rapid response and reliable support to its clients, which it has provided unfailingly despite challenges in its own operating environment.

The program of continuous reforms implemented by the Bank since 2006 has deepened and improved institutional capacity and effectiveness for better delivery of development results. Through its enhanced decentralized structure, the Bank has nearly doubled the number of staff working from its Field Offices (FOs), including in the recently established Regional Resource Centers, from which 25 percent of the Bank's portfolio is now managed. This increase in staff capacity at field level was greatly facilitated by the 36 percent Bank-wide staff increase that occurred between 2008 and 2011. In addition, implementation of the Human Resources Strategic Framework and Action Plan, upgrading of Information Technology systems and investments in knowledge management have strengthened the recruitment, retention and management of staff as well as their capacity to perform. The impact of these efforts is being positively assessed in multilateral aid reviews such as those recently conducted by the UK and Australia. It is noteworthy that the Bank's reputed position as "a preferred partner in Africa" was reaffirmed in a comprehensive survey of its regional member clients in March 2012.

The Bank has reinforced its institutional transparency, integrity and accountability capabilities to match the increased volume and complexity of its operations in the current global context. The measures taken in this regard include fulfilling its commitments under the integrity and anti-corruption agenda, such as the finalization of the new Sanction Procedures to support implementation of the Agreement for Mutual Enforcement of Debarment Decisions together with other Multilateral Development Banks. Institutional integrity is also now better assured as all FOs including the Regional Resources Centers will be audited at least once every two years. To further enhance the transparency of and accountability for the Bank's operations, a new Disclosure Policy and Civil Society Engagement Framework were approved in May 2012. The Bank's Communications Strategy is also being updated to achieve greater openness about its activities and to promote dialogue with stakeholders, including Civil Society Organizations.

Efforts to strengthen the Bank's fiduciary safeguards and risk management frameworks remain on track, although more work is ongoing to strengthen these reforms. Improvements in the delivery of fiduciary services (financial management and procurement, including through substantial staff assignments in FOs) have contributed to a greater quality of operations and support to RMCs. These improvements have placed the Bank in a better position to carry out Public Financial Management oversight of its operations, particularly at the country level. Work is ongoing to consolidate and update the Integrated Safeguards System in order to make it more accessible and user-friendly. Extensive consultation to review the system, in particular the policy, will strengthen ownership by RMCs and replace the current set of environmental and social assessment guidelines. Actions to reinforce the Bank's risk management systems and strengthen internal controls, such as the adoption of an Operations Risk Management Framework in March 2012, are on-going.

Despite the progress, challenges remain. Management remains committed to addressing these challenges, key among which are: (i) the Bank Group's disbursement ratio, (ii) the budget utilization rate, (iii) the staff vacancy rate and, (iv) further improvement to responsiveness to client country requests.

August 3, 2012
5:24 PM

Table of Contents

Boxes

Figures

Tables

Abbreviations and Acronyms

ADB	African Development Bank Group
ADF	African Development Fund
ADF-11	Eleventh General Replenishment of the African Development Fund
ADF-12	Twelfth General Replenishment of the African Development Fund
AMA	Australian Multilateral Assessment
BCP	Business Continuity Planning
CSO	Civil Society Organization
DAI	Disclosure and Access to Information
DAM	Delegation of Authority matrix
DFID	Department for International Development
ESAP	Environmental and Social Assessment Procedures
FOs	Field Office
HR	Human Resources
IACD	Integrity and Anti-Corruption Department
IESIA	Integrated Environmental and Social Impact Assessment
IFI	International Financial Institution
IRM	Independent Review Mechanism
ISS	Integrated Safeguards System
IT	Information Technology
MDB	Multilateral Development Bank
MTS	Medium Term Strategy
PIU	Project Implementation Unit
PL	Professional Level
RMC	Regional Member Country
RRC	Regional Resource Center
SAP ERP	SAP Enterprise Resource Planning
SMCC	Senior Management Coordination Committee
TRA	Temporary Relocation Agency
UA	Unit of Account
USD	United States Dollar

INSTITUTIONAL EFFECTIVENESS:
IMPROVING DELIVERY CAPACITY IN A CHANGING CONTEXT

1. Introduction

1.1 Since 2006, the African Development Bank (ADB or Bank) Group has implemented a series of institutional reforms aimed at strengthening its support to its Regional Member Countries (RMCs). In line with its mandate to promote development and contribute to poverty reduction in Africa, the Bank's reform agenda is geared towards increasing the Bank Group's capacity to deliver development results on the ground, and improving its operational effectiveness and institutional efficiency. The reforms undertaken so far have transformed the Bank Group into a results-oriented knowledge institution with a sharpened strategic and client focus. As a result, the Bank has become dynamic, more transparent in its engagement with its stakeholders, more effective in delivering on its development mandate and more resilient in a difficult operating environment.

1.2 This paper responds to the request by the African Development Fund (ADF) Deputies during the Twelfth General Replenishment of the African Development Fund (ADF-12) replenishment consultations for an update on the implementation and impact of the Bank Group's program of institutional reforms and specific measures taken during the ADF-12 period. The objectives of the paper are therefore to (i) provide a comprehensive update on the Bank's implementation of effectiveness reforms and commitments at the midpoint of the ADF-12 cycle, (ii) highlight challenges and/or emerging issues that are affecting the full realization of the objectives of these reforms and (iii) inform the ADF Deputies on measures being taken by Management to address identified challenges.

1.3 Assessment by Management of performance to date shows that good progress has been registered in (i) decentralization; (ii) reform in human-resource management and development; (iii) strengthening the Bank's operational focus; (iv) improvement in transparency, communication and partnerships; and (v) enhancement of the Bank's risk management and fiduciary functions. Although it will take some time to observe the full impact of these reforms, some positive and encouraging trends are emerging. The Bank is building on the momentum gained and lessons learned so far to address emerging challenges and ensure the continued success and sustainability of the reforms.

1.4 The paper is structured as follows: after this introduction, Section 2 presents the context in which the Bank has operated, including during the ADF-12 period. Section 3 provides an update on the capacity built towards stronger institutional delivery (with special attention to decentralization, human resources, information and communication technology and knowledge management). Section 4 highlights efforts to improve efficiency and deliver quality results; also discussed are the impacts, related constraints and measures being taken to address the constraints, focusing on human, financial and technical aspects. Section 5 outlines measures taken to reinforce transparency, integrity and accountability. Section 6 presents continuing measures towards better safeguards and strengthened risk frameworks, and Section 7 concludes with the Bank's outlook on the way forward to the end of 2013.

2. Context

2.1 The Bank Group has undertaken major institutional reforms during a time that has coincided with a series of regional and global crises. These have included the 2007-08 food and fuel crisis in several African countries, the 2008-09 global financial and economic crises, the food crisis affecting countries in the Horn of Africa, and the more recent sovereign-debt crises in the United States and Europe.

2.2 In Africa, the reform period has on the one hand been marked by unparalleled and sustained economic growth in several member countries (with average growth rates of 5 percent per annum), and on the other hand unprecedented social and political crises. The 2008-09 world economic crisis brought a sudden end to a period of relatively high economic growth in Africa. The continent's economic growth declined from an average of about 6 percent in 2006-08 to 2.5 percent in 2009, with per capita Gross Domestic Product growth slowing to a near standstill. The crisis caused African countries to contend with a deterioration of trade and current-account balances owing to the collapse of commodity prices and the fall of export volumes, as well as reduced worker remittances and lower foreign direct investment. On the social and political side, several factors make the operating context more challenging. Every year, about 15 African countries hold elections that are accompanied by policy uncertainties. This situation has been further complicated by other socio-political developments such as the 2011 Arab Spring in the North African region (affecting Tunisia and Egypt); the conflicts in Libya, Mali, Sudan and South Sudan; and increased unrest in several RMCs including Guinea Bissau, Togo and the Democratic Republic of Congo.

2.3 In the global context, the worldwide economic crisis and the sovereign-debt crisis have affected the Bank Group's shareholders. For instance, although initially donor countries generally maintained their aid flows to Africa despite substantial fiscal pressures at home after the 2008-09 economic crisis, this trend is changing given the ongoing sovereign-debt crisis in Europe and North America. The currently tight fiscal environment has resulted in reviews of and reductions in development assistance budgets.

2.4 For the Bank Group, these external developments have posed challenges requiring its steady focus and reliable support. For instance, the worldwide economic crisis has required the Bank Group to play a countercyclical role through increased assistance to its member states in order to counter the impact of their reduced access to capital markets (for more information on the Bank Group's responsiveness to the needs of its clients in times of crisis, see Box 1). The Bank has also been confronted with challenges attributable to socio-political unrest in its host country, Tunisia, as well as in the country of its headquarters, Côte d'Ivoire, something unique to the Bank Group relative to its Multilateral Development Bank (MDB) peers. Moreover, the Bank has had to carry out its institutional reforms within a prudent budgetary framework due to the prevailing tight fiscal environment.

2.5 While the Bank has – partly as a result of the ongoing reforms – shown strong resilience and adaptability to the emerging challenges, efforts continue to further consolidate and deepen the reforms undertaken and to strengthen their impact in enhancing the Bank's ability to support its RMCs. In addition, given the fluidity of the operating context and its associated challenges, Management has inculcated within the institution a culture of continuous review and improvement of the institutional strengthening measures and reforms in order to ensure that they remain relevant, effective, and appropriate to the emerging contexts and challenges.

Box 1: Improved Effectiveness and Responsiveness:
Bank's Support to African Countries Affected by Crisis

African countries have been affected by a number of crises in recent years: the 2008-09 global financial and economic crisis, various food crises including in the Horn of Africa and the Sahel, and the upheaval of the Arab Spring, among others. The Bank's reforms to improve its delivery capacity and the quality of its interventions, particularly in the area of streamlined business processes, have enhanced its responsiveness to requests for assistance from RMCs in times of crisis[1]. Specifically, the reforms have strengthened the Bank's capacity to process significantly more operations in the same amount of time, to adjust pipelines and fast track new operations, and to restructure existing portfolios to redirect resources to areas of need. The Bank has also been able to offer innovative instruments and facilities designed to help countries overcome the effects of crises, and it has used its convening power to mobilize governments and other development partners to respond to emerging crises. Finally, flexibilities built into the ADF policy framework have enabled the Bank to channel ADF resources to client countries in a more flexible and expeditious manner.

Response to the Global Financial and Economic Crisis

The economic crisis which followed the global financial crisis of 2008-09 affected ADF countries through falling commodity prices, deteriorating terms of trade, declining revenues from exports and tourism, lower remittances, and sluggish foreign direct investment. The Bank responded in a variety of ways. Firstly, it provided ADF countries with special assistance in the form of: (i) budget support to fill gaps in public expenditure programs; (ii) financing for key infrastructure projects; and (iii) support to private sector development by leveraging the ADF. As a result, ADF countries could use their allocations to safeguard priority expenditures, including essential

[1] This section does not cover emergency and humanitarian assistance provided through the Bank's Special Relief Fund.

infrastructure investments and social services.

Secondly, the Bank demonstrated timely and decisive leadership by introducing an Emergency Liquidity Facility (US$ 1.5 billion) designed to provide short-term resources to eligible clients facing unexpected needs resulting from the financial crisis. The Bank also allocated US$ 1 billion to the Trade Finance Initiative with the aim of introducing a new trade financing line of credit to commercial banks and financial institutions affected by the sudden shortage of capital for trade financing.

Thirdly, taking into account the severe economic and financial circumstances, and in order to facilitate timely and quick response, the Bank introduced a number of policy and procedural flexibilities:

- It allowed the restructuring of ongoing projects in the portfolio to reprioritize activities and enable resources to be shifted to areas outside the original scope of the projects and/or to new areas on the basis of a 3-day circulation to the Board;
- It authorized the possibility to change instrument from investment loans to fast-disbursing instruments more appropriate in times of crisis, subject to a 14-day document circulation;
- It facilitated the reprogramming of resources in sectors and for purposes outside the existing pillars of the country assistance strategy.

Response to Food Crises

The Bank demonstrated its ability to respond quickly and effectively during the 2007-08 food crises by rapidly adapting its policies and country pipelines to the needs of its client countries. It also restructured its portfolio by shifting resources between sectors and instruments, and led coordination and resource mobilization efforts with other development partners. In particular, the Bank Group created the Africa Food Crisis Response initiative to provide accelerated support to RMCs affected by high food prices. This initiative was expected to provide approximately UA 500 million in the short term and up to UA 1.4 billion in the medium and long term, aimed at reducing the vulnerability of populations in affected RMCs to high and unstable food prices, and at promoting sustainable agricultural growth and food security over the medium and long term.

The Bank's short term response included: (i) the realignment of the existing agriculture portfolio with the aim of boosting production (UA 133 million); (ii) use of budget support instruments for quick disbursement of resources to RMCs (UA 304 million); (iii) increased dissemination of NERICA rice seeds for the planting season (UA 24 million) and (iv) accelerated allocation from the Bank's Surplus Account (UA 20 million). The medium to long term measures aimed at strengthening food security while taking advantage of high food prices through: (i) improved rural infrastructure; (ii) operationalizing the African Fertilizer Financing Mechanism; (iii) increasing NERICA rice production; (iv) capacity building, policy dialogue and trade promotion; (v) scaling up private sector operations for food security; and (vi) promoting agricultural research.

Food Crisis in the Horn of Africa: In view of the recurrent droughts and the associated chronic food insecurity in the Horn of Africa which recently affected over 12 million people, the Bank undertook a Regional Study on Sustainable Livestock Development in the Horn of Africa in 2010, in collaboration with the Inter-Governmental Authority on Development and its member countries (Djibouti, Ethiopia, Kenya, Somalia, Sudan, South Sudan and Uganda). The Bank also participated in a Heads of State and Government Summit of the Horn of Africa region in Nairobi in September 2011, which adopted a strategy to eradicate drought emergencies in the region. Building on the Regional Study and the Nairobi Strategy, the Bank is currently developing a program to address the priority areas identified, namely water resources development; pasture land and environment; livestock production; marketing and infrastructure; the policy, legal and regulatory framework; and peace and conflict management, with a view to improving countries' capacity to cope with the effects of drought in the medium and longer term. The program requires significant resources, and the Bank is playing a leadership role by engaging interested multilateral and bilateral partners in addition to employing ADF-12 funds.

***Food Crisis in the Sahel*:** In the Sahel region, recurrent crises such as the droughts of 2005 and 2010 (that affected over 10 million people) and the ongoing food crisis resulting from climate change impacts are causing the number of people suffering from chronic food and nutrition insecurity, poverty and vulnerability to drought to increase. An estimated 16 million people are directly affected by these crises. The deteriorating security situation in areas of the northern Sahel further aggravates the situation. In order to stem the recurrent cycle of famine, the Bank is developing a program of support to Burkina Faso, Cape Verde, Chad, Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Niger and Senegal. The program aims at strengthening the resilience of the region and reducing its vulnerability to climate change impacts on food production. To this end, the Bank's support program, which will also include capacity building activities, will target 800,000 smallholder farmers and pastoralists who provide over 90 percent of the food needed in the region and who comprise 70 to 80 percent of the population which derives its principal source of revenue from the sector. The Bank is expected to contribute ADF resources to the program in addition to assisting in the coordination and mobilization of other development partners.

Response to the Arab Spring

In response to the crisis arising from the Arab Spring and affecting Egypt, Libya, Morocco and Tunisia, the Bank has provided budget support and designed operations targeted at the causes of the unrest, including youth unemployment, socially disadvantaged regions, etc. It has also played a central and active role in creating the

Deauville Partnership of financial institutions with the aim of supporting political and economic transformation in the affected countries[2,3]. The Bank will, under the Deauville Partnership, be part of the International Financial Institutions' support (IFIs) to implementation of an economic framework tailored to each country's economic program in the areas of: (i) governance, transparency and accountability of economic activities, (ii) social and economic inclusion, (iii) economic modernization and job creation, (iv) private sector led economic growth, and (v) regional and global integration. The Bank currently chairs the rotating Coordination Platform during its first year of operation.

Advisory and Technical Support to Sudan/South Sudan Negotiations

Since late 2010, the Bank Group has been providing analytical capacity and advisory support to the African Union High Level Implementation Panel on Sudan in the context of the post-referendum negotiations between Sudan and South Sudan, in particular on financial and economic issues. The role of the experts provided by the Bank was critical in strengthening the capacity of the Panel on various technical issues, such as debt resolution, currency and banking, and trade and regional economic cooperation, and in developing the related options papers that fed into the negotiations by the Parties. The Bank has been steadfast in its support to the Panel and continues to provide advisory assistance throughout the various rounds of discussions.

3. Improved Capacity to Deliver Results to Clients

3.1 Management continues to deepen the institutional reforms adopted in line with the Bank's reorganization since 2006. In accordance with commitments under the Eleventh General Replenishment of the African Development Fund (ADF-11) and ADF-12, the Bank has prioritized reforms and initiatives that are expected to yield the greatest impact on delivery performance, i.e., decentralization, human-resources management, strengthened Information Technology (IT), and knowledge development and management. While the Bank is on track in fulfilling the related ADF-12 commitments, implementation of certain actions is likely extend to the Thirteenth General Replenishment of the African Development Fund period due to their complexity and long-term nature, as well as the need to fine-tune them based on emerging lessons and experiences. This section sets out the achievements to date, challenges encountered and the measures being undertaken to strengthen the Bank's institutional capacity in these respects.

Reinforcing the Bank's New Delivery Model at Country Level: Decentralization

3.2 Encouraged by the positive role of Field Offices (FOs) in recent years and lessons learned from Bank's own experience and that of sister institutions, the Board approved the 2011-2015 Decentralization Roadmap in April 2011. The Roadmap sets clear minimum targets for and actions to be taken by 2015, including staff and functions to be based in and managed by FOs. The Roadmap focuses efforts towards (i) strengthening existing FOs through increased staffing capacity and authority in portfolio management and implementation; (ii) expanding the Bank's presence in fragile states to support weak government capacity, with attention given to customizing support by country; and (iii) consolidating regional capacity to hasten support to clients and FOs alike through shared technical and specialist skills, including enhanced procurement and fiduciary management.

3.3 The on-going implementation of the Decentralization Roadmap is informed by the findings and recommendations of the 2008 decentralization evaluation, e.g., the need to address gaps between the number of sector specialists in the field and the corresponding levels of delegated authority and IT connectivity, and the need to ensure a critical mass of professional staff, largely through relocation of staff based in Tunis.[4] The decentralizing of Bank operations also responds to client demand, the new challenges and opportunities associated with increased ADF and General Capital Increase resources, and the need to build a framework for the

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2 The Partnership includes Canada, Egypt, the European Union, France, Germany, Italy, Japan, Jordan, Libya, Kuwait, Morocco, Qatar, Russia, Saudi Arabia, Tunisia, Turkey, the United Arab Emirates, the United Kingdom and the United States.

3 The IFI platform includes: the African Development Bank, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the European Investment Bank, the European Bank for Reconstruction and Development, the International Finance Corporation, the International Monetary Fund, the Islamic Development Bank, the OPEC Fund for International Development, and the World Bank.

4 ADB. 2008. *Independent Evaluation of the Bank's Decentralization*.

Bank's new business-continuity management plan.

3.4 The Bank's field presence has thus been expanded to 31 African countries with FOs and three countries with customized resident support through National Program Officers and Country Economists. Of these FOs, 10 were opened between 2008 and 2012 among which five are in fragile states: Burundi, Liberia, Togo, Central African Republic (opened in 2011) and South Sudan (opened in 2012). Additionally, two Regional Resource Centers (RRCs), headed by Regional Directors, were established in January 2012 on a pilot basis[5], in Nairobi and Pretoria. The respective Regional Departments are already operating from the field.

3.5 The Bank has increased the proportion of staff in the field, from 15 percent in 2008 to 29 percent at end-2011 in efforts to ensure that the expanded field presence is matched with staff capacity. The level of staffing in field offices is expected to rise further as the RRCs continue to grow. In order to further align the Bank's delivery capacity with its strategic priorities and client needs, staff deployment to country and regional levels takes into account the need for (i) strengthened skills mix and capacities of staff, including through an international staff rotation and mobility policy, while guarding against duplication of functions in the FOs and the headquarters/Temporary Relocation Agency (TRA); (ii) enhanced procurement and financial-management-related staff capacity and fiduciary safeguards frameworks; and (iii) stable and performing IT systems to support communications and efficiency at all locations and levels. [6] Furthermore, for more effective portfolio management, the Bank's deployment of staff capacity and skills mix in countries with large operations portfolios, such as Nigeria, the Democratic Republic of Congo, Ethiopia, Morocco and Egypt, respond to local needs and portfolio composition.

3.6 As part of streamlining the business processes and moving the decision-making and leadership closer to clients, Management updated the delegation of authority matrix (DAM) in 2012. The updated DAM sufficiently empowers all FOs to carry out and deliver on their mandate of building the pipeline of new operations and maintaining effective country portfolios post-Board approval with delegated authority to fast-track implementation. The DAM also takes into account the Bank's business continuity planning (BCP) in line with the new BCP strategy (adopted in May 2012). It therefore integrates options to cope with any major disruptions of Bank business arising from crises such as those experienced at both its headquarters in Abidjan (2003) and its TRA in Tunis (2011). [7]

3.7 The Bank's expanded field presence and enhancement of country level staffing capacity have been matched by an increase in the proportion of the Bank's portfolio directly managed by FOs. About 25 percent of the 2011 portfolio was managed by FOs, compared with 7.4 percent in 2008, exceeding the target of 20 percent set for the year. Initial analysis shows that in countries where a field office has been opened, the performance of the Bank's portfolio has tended to have on average improved by more than 50 percent[8] after the opening of the FO. In addition, the Bank's field presence is reinforcing its policy dialogue with client governments, Regional Economic Communities and other regional bodies, promoting better aid coordination and harmonization with other donors. For instance, in 2011, the Bank undertook various leadership roles in coordinating development assistance in half of the countries with ADB active participation in general budget support and sector working groups, improving its high-level dialogue with RMC governments and heightening visibility.[9,10] The improvements in Bank's engagement at country level have been reflected in the findings of the 2012 Client Assessment Survey where clients have expressed satisfaction with the Bank's increased

5 The effectiveness of the RRCs will be subject to evaluation in 2014.

6 ADB. April 2012. *Staff Rotation and Mobility Guidelines (for International Staff)*.

7 Two BCP sites have been identified: the RRC in Pretoria and the field office in Rabat. The Pretoria location will house the Bank's BCP data center (currently located in France).

8 This figure focuses only on correlation and does not imply causality. The portfolio performance measure used is the proportion of problem projects to active Bank portfolio in the country.

9 ADB. *Aid Effectiveness Survey: 2011 Report*.

10 The Bank Group has increased its active involvement in Budget Support coordination groups from only 6 in 2009 to 21 Budget Support coordination groups in 2012 (of which it has chaired 10). It has also actively participated in 20 Public Financial Management donor coordination groups and has acted as chair in 4 of these.

engagement at country level and requested for ADB offices in every RMC.[11]

3.8 Despite the progress made to date, not all FOs currently have the requisite sector staffing capacity to effectively respond to clients' needs and support the Bank's portfolios of operations. To address this, deployment of staff will continue until all FOs have sufficient capacity to meet the needs of their respective countries. In addition, the DAM will continue to be fine-tuned to ensure that it is both effective and efficient in supporting decentralized operations.

Enhancing Human-Resource Capacity, Management and Retention

3.9 Cognizant of the critical role of human resources (HR) in the achievement of its strategic objectives and delivery to its client countries, the Bank Group is focusing on reforms aimed at (i) strengthening staff capacity; (ii) improving its HR processes and HR management structure to be more responsive to the operational departments' demands for staffing; and (iii) strengthening its HR management policies and practices to promote a performance-driven culture, and to attract and retain a qualified, motivated and productive workforce. Furthermore, the Bank Group's Operations Manual is being revised to improve coherence and coordination in the Bank's decentralized operations and to empower FOs, particularly RRCs, to deliver the bulk of the Bank's products and services.

3.10 ***Alignment of Human Resources with the 2008-2012 Medium-Term Strategy (MTS) Objectives:*** In 2008-11, the Bank significantly increased its professional-level (PL) staff from 846 to 1,213 positions while at the same time reducing staff turnover from 8 percent in 2008 to 5 percent in 2011 (against the benchmark average of 18 percent).[12] Over the same period, the proportion of staff deployed to operations and to FOs steadily increased from 55 percent to 72 percent and from 15 percent to 29 percent, respectively in line with the Bank's core priorities and operational focus. New staff has mainly been deployed to the priority areas defined in the MTS, namely: infrastructure; private-sector development; regional integration; fragile states; knowledge management; and operational, fiduciary and risk management. For instance, in order to speed up project implementation and address challenges and delays related to financial management and procurement issues, in 2008-11 the Bank increased the number of financial management and procurement staff from 2 to 20 and from 15 to 43, respectively. This capacity has enabled the experts to now be involved in all stages of the project cycle (see also para. 3.5 on decentralization).

3.11 The increase in staff has taken into account diversity in terms of gender, age and mix of local and international talent. At end-2011, 28 percent of PL staff and 55 percent of General Service (GS) staff were female, while the proportion of PL staff below age 45 was 48 percent (up from 35 percent in 2008) (See Table 1). In its young-professionals program, the Bank has assured a steady inflow of highly qualified professionals (22 in 2011), with the aim of enhancing the diversity targets for gender, age and geographic distribution as well as succession plans. The new hiring of locally recruited staff for the FOs is also contributing towards a good mix of local and international talent. The recruitment of a Diversity Officer and planned adoption of a Diversity Report and Action Plan will further enable Management to accelerate and consolidate diversity considerations. There have also been marked improvements in other performance indicators, as shown in Table 1.

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11 ADB. 2012. *The Preferred Partner? A Client Assessment of the African Development Bank*, survey undertaken by Development Finance International and Global Economic Governance Program at University College.

12 As per the *2011 Corporate Leadership Council Turnover Benchmarking Survey* in which the Bank participated.

Table 1: 2008-2011 Human Resources Key Performance Indicators

(Percentage)

Key Performance Indicators	2008	2009	2010	2011
Field-based	15	26	26	29
Gender balance	24	26	27	28
Staff age diversity	35	42	44	48
Staff turnover rate	8	7	7	5
Staff premature attrition rate	N/A	11	28	28*
Operations complexes professional-level (PL) staff	55	62	67	72
Vacancy rate (PL)	15	12	13	15

* *Premature attrition in 2011 concerned 17 staff members who left the Bank within the first contract.*

Source: *ADB; Retrospective Reviews of the Administrative and Capital Expenditure Budgets and Performance; Annual Development Effectiveness Review 2012*

3.12 ***Improvements in the HR functions and staff performance***: In line with the commitments made during ADF-12, the Bank has focused its efforts on the implementation of the HR Strategic Framework and Action Plan for 2007-12. Improvements in HR business processes have resulted in streamlined, more transparent and efficient staff recruitment processes (with the adoption of the Recruitment Manual[13] in 2010), while maintaining the required rigor to recruit the best available talent. Building on Human Resource Reviews and Staff Surveys, several key policies, guidelines and systems have been put into place. These include (i) the introduction of UA budgeting in 2009 and subsequently, a Strategic Staff Planning process[14] to better align staffing with budgets and business needs, (ii) the promulgation of the Recruitment Manual in 2010 and (iii) the launch of the e-recruiting system, which is expected to increase transparency, speed and efficiency in the recruitment process. These changes are slowly bearing fruit and reducing the lead time for recruitment. The Bank has also completed the decentralization of its HR functions to organization units; this is expected to bring about greater ownership and accountability for HR management and decision-making by the units.

3.13 In order to identify other measures needed to strengthen the HR function and accelerate progress towards the Bank's achievement of performance targets, Management commissioned a review (by Mercer) of the implementation of the HR Strategic Framework and Action Plan, which was completed in April 2012. The review found that improvements had been registered in people management within ADB but that more needs to be done to ensure that (i) processes and practices are within comparable norms and in line with best practices and (ii) HR management capacity matches the ADB's rapid growth and the resultant demands of a larger, complex organization. In this regard and as part of its preliminary recommendations, the review supported the proposed restructuring of the HR Department intended to improve its effectiveness and transform it into a more client-oriented and strategic business partner. The review also confirmed the relevance of other ongoing reforms, including:

- the rolling out of the Career Development Framework[15,16] (launched in 2010), which is expected to promote a merit-driven culture and provide for career growth, better staff motivation as well as staff recognition and exposure to different aspects of Bank operations. Under this framework, a total of 183 staff members were promoted internally through a competitive process, while 68 were promoted through the *in situ* promotion mechanism in 2011, improving staff morale. The review also supported the Dual Track Career structure in the Bank, however noting that the distinct career paths need to be better defined.

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[13] http://intranet.afdb.org/portal/page/portal/lang-en/8C9E0789428E37B6E0440019BBEBCD62

[14] http://intranet.afdb.org/portal/page/portal/AFDBPG_PRESIDENCY/COBS/COBS_Documents_Publication/Staff%20Planning%20-%20Guidelines%202011%20(2).pdf

[15] http://intranet.afdb.org/portal/page/portal/AFDBPG_CMVP/AFDB_CHRM/CHRM_Publication_Page/CAREER%20DEVELOPMENT%20FRAMEWORK%20-%20MAY%202010%20-%20ENGLISH%20-%20%20%20%20FINAL.doc

[16] This framework is complemented by: an online performance management system which has improved transparency, administration, traceability and reporting of staff performance; and learning and training initiatives for staff.

- implementation of measures to strengthen management capabilities and improve the professional environment by assessing and enhancing managers' people-management skills. A 360-degree staff survey on management skills has been instituted and is complemented by Leadership and Management Development Program for managers aimed at improving their leadership and management skills. The recent launch of a Manager's Award in 2012 to recognize high-performing managers will further encourage improvements in this regard.
- enhancement of the Bank's value proposition through measures such as the promotion of non-monetary rewards and work-life balance.

3.14 The impact of the aforementioned reforms is expected to register over time and to address some of the ongoing challenges. For instance, the premature attrition rate[17] was 28 percent at the end of 2011 (against a target 11 percent). This is attributable to various factors including family considerations, career prospects and location. The attrition partly contributes to the Bank's challenge of persistently being above the target staff vacancy rates, which range between 12 percent and 15 percent per annum (against a 5 percent target).[18] Other contributing factors include uncertainty about the duration of the Bank's temporary location in Tunis following the strife in 2011 and the prospective return to Abidjan.

3.15 To address the issue of high vacancy rates, Management has set up an institutional task force to assess and provide solutions to recruitment challenges. Subsequently, the Bank Group introduced Collaborative Corporate Partnership recruitment processes to identify vacancies and staff needs early and to speed up recruitment through batch interviews, the use of recommended lists, an upgraded online recruitment system and the pooling of vacant positions. In addition, Management froze new budgetary provisions for new positions for the year 2012. These combined measures are expected to reduce the vacancy rate to 10 percent by year-end (see also para 2.23 of Results and Development Effectiveness Paper).

3.16 Management will also use the opportunity of the next Bank Staff Survey, scheduled for 2013, to assess internal perceptions of progress being made in keeping the Bank competitive and able to attract and retain high-quality staff. Continuous efforts are being made to fully respond to the issues identified from the 2010 survey,[19] particularly regarding the need to improve managerial level leadership and people-management skills.

Leveraging (New) Information Technology Systems for Increased Effectiveness

3.17 IT systems remain a crucial to the Bank's capacity to deliver development results efficiently and in an integrated manner consistent with the "One Bank" concept. IT systems must be secure, reliable, of the highest quality and easy to use if they are to enable the Bank's staff to successfully and efficiently design, implement and report on operations in RMCs. Towards this end and in line with the commitments made under ADF-11 and ADF-12, the upgrading of the Bank's SAP Enterprise Resource Planning system is ongoing as part of the Bank Group's measures to adapt its systems to changing demands which arise from the shift to a decentralized model of operations. The upgrade is also expected to contribute and the need to streamline business processes, strengthening collaboration among operational departments and facilitate automated results reporting.

3.18 The technical stage of upgrading SAP Enterprise Resource Planning to the latest technology was completed in February 2012. The second phase has taken longer than initially envisioned but is expected to be implemented within 18-24 months (ending in 2013/14). This phase of the upgrade will focus on (i) improving the project management system and introducing an interactive supervision monitoring function that allows Task Managers to capture supervision data during supervision missions, (ii) streamlining project procurement processes in SAP to take into account the approval authorities of the Procurement Coordinators in the FOs, (iii)

[17] Measured as a percentage of staff leaving the Bank within the first contract, out of all staff leaving within the same period. This definition will, going forward, be reviewed to align it with comparator institutions.

[18] The figure excludes committed positions with candidates already identified and expected to assume duty which, if included, would bring the rate down to 11% at the end of 2011.

[19] The 2010 Staff Survey results, when compared to those of the 2007 Staff Survey, showed considerable improvement in job satisfaction, job security, and staff pride in, commitment to and understanding of the Bank's mission and values, as well as an improvement in the Bank's ability to attract high-quality people.

enabling financial and fiduciary management services to capture additional information and follow up on audit reports' submissions and recommendations and (iv) automating the Bank's corporate procurement processes in the SAP. The highest priority has been accorded to ensuring secure financial transactions for disbursement services effective from the RRCs.

3.19 The Bank Group has also made the necessary investments to (i) improve connectivity speed, reliability and security of its IT systems; (ii) promote cost-effectiveness of the Bank's communications and engagement among field offices and RRCs as well as with the headquarters; (iii) promote efficiency in the Bank's operations and business processes and (iv) increase the capacity of existing systems to handle the increasingly complex nature of the organization and its transactions and to mitigate related operational risk. For example, the Bank has installed a new integrated, more reliable, secure and cost-effective audio and videoconferencing facility for use among Bank offices, between Bank staff and government counterparts in the FOs and the TRA in Tunis. Furthermore, investments in fiber-optic connections to 14 FOs[20] were completed in early 2012, ensuring greater and more resilient bandwidth. The downtime of the Wide Area Network was reduced by about half between 2010 and 2011.

3.20 Given the considerable investment and importance of functional IT systems, management is now focusing itself on addressing the remaining challenges related to (i) ensuring that the IT systems function effectively, with minimal disruptions; (ii) improving help-desk services and assuring high-quality responsiveness to IT problem-solving requests, particularly from FOs; (iii) establishing connectivity in newly opened FOs, such as in the fragile states and (iv) ensuring that the IT platform effectively supports the implementation of other Bank processes, such as information disclosure and fiduciary safeguards.

3.21 Management is taking the necessary measures to improve IT connectivity between the TRA and the FOs including through the establishment of more reliable and stable high-definition video transmissions, which are particularly useful in engaging FOs in critical meetings with Country Teams as well as the Board, among others. To ensure more forward-looking and coherent investments in IT, the Bank is formulating a new IT strategy and implementation roadmap, which is expected to be presented to the Board in 2012**.** The new strategy will provide a holistic review of IT solutions in place as well as the challenges to be addressed in order to meet the new business requirements over 2013-15.

Enhancing Knowledge Generation and Management to Deepen Development Dialogue

3.22 Management continues to be guided by its 2008-2012 knowledge management strategy to generate knowledge on African development priorities. The Bank now plays a leadership role in generating and sharing knowledge about development issues facing the continent. Building its knowledge base has enabled the Bank to deepen its policy dialogue with RMCs as well as with other partners, such as the Economic Commission for Africa, Organization for Economic Cooperation and Development/Development Assistance Committee, United Nations Development Program, World Bank, and World Economic Forum, and to design higher-quality and more relevant products to inform African views and perspectives in international fora. The Bank's principal knowledge publications are the *African Economic Outlook* (co-published), the *African Competitiveness Report,* the *African Development Report* and the *Millennium Development Goals Progress Report for Africa.* In addition, the Bank produces bi-annual publications, including the *Telling Africa's Development Story* series and the *African Statistical Journal,* while the *African Development Review* is published quarterly.

3.23 The Bank's knowledge work is informing not only policy dialogue with country authorities and other development partners, but also its interventions in the RMCs. Examples of recent country-specific publications include a Domestic Resource Mobilization study for five East African countries, a study on infrastructure and growth in Sierra Leone and a flagship report on Nigeria's infrastructure. (See also paras. 3.21-22 and 3.26-27 in Progress Report on Operational Priorities).

[20] Burkina Faso, Cameroon, Egypt, Ethiopia, Ghana, Kenya, Madagascar, Mali, Mozambique, Nigeria, Rwanda, Sudan, Tanzania and Zambia

3.24 The Bank also organizes knowledge-sharing events, such as the annual African Economic Conference, and specific peer-learning opportunities, an example of which was the 2011 workshop on debt relief held in Sudan, where countries that have benefited from the Heavily Indebted Poor Countries arrears clearance and debt-relief process shared their experiences. The Bank also continues to help RMCs strengthen their capacity to generate and disseminate reliable and timely statistics needed for informing policy decisions and managing for development results.[21]

3.25 The Bank is employing its enhanced capacity to leverage the knowledge it generates in strengthening the African voice in the international agenda. In 2011, the Bank actively participated in the meetings of Ministers and Experts to prepare recommendations for the G20 Leaders' Summit, the Climate Investment Funds Partnership Forum in Cape Town and in the Conference of Parties 17 in Durban. The Bank has also continued to provide analytical and secretarial support to the Committee of Ten Ministers of Finance and Central Bank Governors initiated in 2010. These efforts are well appreciated by client countries and development partners alike, as evidenced by feedback from the 2012 Client Assessment Survey.

3.26 The number of knowledge products and sharing exercises (publications, working papers, and training for development) delivered by the Bank in 2011 exceeded internal targets. Nevertheless, the Bank is working towards further refining (i) the definitions of what constitutes a knowledge product (for example an economic and sector work) and (ii) quality standards to ensure increased consistency, relevance and usefulness of the products. This will inform the next review of the Bank's Key Performance Indicators in this area.

4. Delivering Results with More Quality and Efficiency

4.1 In order to improve institutional and operational efficiency and enhance the Bank's ability to deliver value for money, Management has instituted measures to ensure (i) better institutional coordination and decision making processes; (ii) more efficient allocation and utilization of financial resources; and (iii) strengthened capacity to leverage resources, skills and knowledge. This section therefore underscores how the Bank's corporate culture is changing with the commitment to stronger management for results guided and monitored through key performance indicators derived from the Bank's Results Measurement Framework. Improvements, particularly in knowledge management and budget execution and discipline, are having a positive impact on the Bank's performance and are being recognized equally by the Bank's development partners and stakeholders.

Changing Corporate Culture to Focus on Quality and Development Results

4.2 The Bank has made considerable progress in monitoring and improving coordination, coherence and effectiveness of the reform measures. With the introduction of the Results Measurement Framework in 2003 and the Roadmap on Aid Effectiveness in 2011,[22] regular monitoring of the effectiveness of the Bank support is now firmly institutionalized. The results from the Results Measurement Framework are consolidated and published in the Annual Development Effectiveness Review. (See also the Results and Development Effectiveness paper).

4.3 Two coordination platforms -- the Senior Management Coordination Committee (SMCC) and the Operations Committee– remain central in supporting the institutional reform process. The SMCC, being the central platform for institutional governance, facilitates a commonly owned corporate view on matters relevant to the Bank Group's strategic functions. A key priority of the SMCC in 2011-12 has been the review of Bank operational policies delivered as part of the Sixth General Capital Increase and ADF-12 commitments, to ensure that they are aligned with

[21] For example, the Bank's Program to Build Statistical Capacity for the Millennium Development Goals Monitoring and Results Measurement provides technical assistance, training and investment in capacity building to improve the quality and coverage of the official statistics produced by national, sub-regional and regional statistical systems. Beneficiaries include 40 participating RMCs, four sub-regional organizations and five regional statistical training centers.

[22] http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Rev%20-%20Roadmap%20Aid%20Effectiveness.pdf

and supportive of the Bank's 2008-2012 Medium-Term Strategy.

4.4 The Operations Committee continues to ensure that policy and operations are aligned with the Bank's strategy and mandate. It plays an important role in assuring that documents are of good quality before they are submitted to the Board. Its Secretariat was strengthened with additional staff in 2012 to facilitate and support the Committee in overseeing program quality, portfolio management, operational outcomes and results. Other recent reform actions to ensure high quality and smooth programming and processing include the development of an electronic Bank-wide Program Processing Schedule. This instrument is expected to support systematic improvements in delivery of new operations and the streamlining of related business processes, consistent with known best practices among multilateral development banks.

Efficiency in Allocation and Use of Financial Resources

4.5 As part of its drive to improve the efficiency in allocation and use of resources, the Bank introduced budgetary reforms in 2007 aimed at improving the management of work programs and budgets through (i) greater alignment of work programs with institutional priorities, (ii) enhanced budget flexibility through fungibility and devolved resource management authority and (iii) improved accountability for performance in terms of effective delivery and efficiency in the use of budgetary resources. An independent review of the budget reforms was launched in 2011 and is expected to inform further fine-tuning of the budget allocations to ongoing reforms including decentralization, implementation of the new DAM and financial risk management, among others.

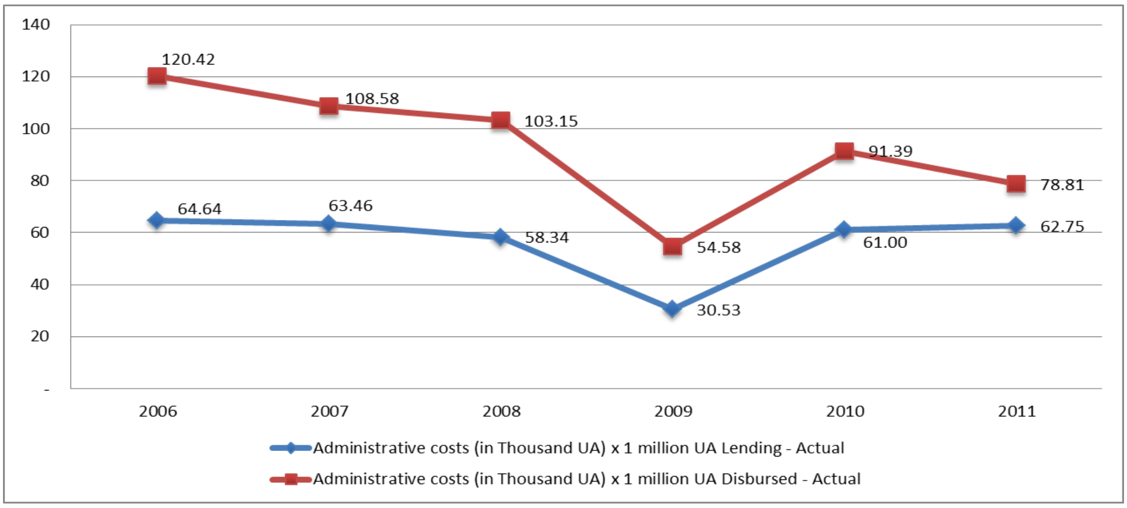
4.6 The Bank has focused its efforts on increasing flexibility and responsiveness to emerging budgetary issues at the operations level. To this end, and as discussed with the ADF Deputies, the Bank introduced UA budgeting which devolved authority to departments to allow them to align budgetary resources with shifts in work programs. This system was backed by the establishment of Budget Help Desks and a network of Budget Coordinators and Focal Points in each complex to help budget management, monitoring and reporting.

4.7 Reform actions have also focused on budget discipline in order to ensure value for money in delivery of operations. Better planning, particularly with regard to the Bank's staffing, and use of fixed-cost ratios has increased accountability at the managerial level while maintaining an appropriate level of central control. Furthermore, and in line with the tight fiscal global context, real budgets have been kept flat since 2010, and focused on funding high-priority activities. The "zero growth" budget for 2012 also included a limit on headcount growth. In this regard, important programs such as decentralization and IT, which call for resources beyond projected budgets, have been funded through savings and efficiencies. In addition, the Bank is implementing a cost accounting system, which would help determine the true cost of the Bank's products and services and improve budgeting. Management expects that in addition to improving planning and budgeting, information from the accounting system will strengthen the basis for distributing administrative expenses among ADB, ADF, and Nigeria Trust Fund windows.

4.8 Efficiency gains have resulted in a UA 8.97 million reduction in the 2012 budget envelope by optimizing expenditure and ensuring that planned activities are realistic and achievable. However, the Bank's efficiency as measured by the proportion of administrative costs to lending and disbursement volumes (see Figure 1) presents mixed results. Costs relative to approvals have remained essentially flat since 2006, suggesting that expanding staff numbers and investments in decentralization and IT have gone hand in hand with expanding approval volumes. At the same time, costs relative to disbursements show a generally improving downward trend, suggesting that investments in capacity have led to higher disbursement volumes.[23]

[23] The marked increase in efficiency during 2009 was due to the impact of the counter -cyclical lending operations in the year which pushed up lending volumes.

Figure 1: Administrative Costs per Lending and Disbursement Volumes



4.9 Budget utilization -- which averages 87 percent -- has since 2008 remained below the annual target of 95 percent, despite the 2012 freeze of budget growth. Similarly, the share of FO expenses in 2011 which was 13 percent, fell below its target of 17 percent. While this rate reflects the savings and efficiency gains made, the underutilization also results partly from unused staff budgets related to vacancy rates as well as facilities costs linked to hosting staff at TRA and in the FOs. Measures to address vacancy rates will help reduce the utilization gap. In addition, Management has instituted a continuous review and re-allocation of resources to ensure that operational units that urgently need additional budget allocations get them well ahead of time.

Strengthened Capacity to Leverage Resources, Skills and Knowledge

4.10 In a bid to leverage its statutory resources (ADB, ADF and Nigeria Trust Fund), the Bank Group has mobilized non-statutory resources consisting of bilateral and multilateral trust funds (cumulative amount of UA 523 million at end-May 2012), donor-funded technical assistance, and co-financing and knowledge partnerships to support delivery of services to clients. In 2011, non-core resource mobilization efforts resulted in a total of UA 82.89 million of new trust-fund resources, of which UA 72 million were for thematic funds such as the Sustainable Energy Fund for Africa, the Rural Water Supply and Sanitation Initiative and the Africa Trade Fund. Trust-fund resources are increasingly being used to support the implementation of operations departments' work programs in the Bank's priority areas. For example, 35 percent of the trust-fund resources approved were for private-sector development, 16 percent for governance and 15 percent for knowledge management and services.

4.11 Other efforts are being made to improve the Bank's ability to meet the increasing resource needs of the RMCs (see Box 2). For example, in addition to promoting innovative partnerships and cooperation with traditional donors and other partners, Management is giving special attention to mobilizing Africa's own expertise and resources in support of development.

Box 2: Building Synergy for Stronger Development Outcomes Through Partnerships

At the country level

To leverage its core resources, the Bank has established various innovative partnerships. The Zimbabwe Multi-Donor Trust Fund was set up in 2010 as an innovative instrument that catalyzes donor funding and provides support to the Government of Zimbabwe in two sectors (water and sanitation, and energy) under a special arrangement. The framework under which the facility operates is by design different from that of conventional trust funds, where the procurement activities and day-to-day implementation of the projects are completely outsourced to agents. As the Administrator of the Zimbabwe Multi-Donor Trust Fund, the Bank has mobilized an equivalent of USD 80 million to date. This fund complements the Fragile States Facility support to Zimbabwe.

At the regional level

In line with its mandate of crowding in investment in Africa, the Bank has entered into co-financing arrangements with several strategic partners such as India, the Islamic Development Bank, Japan and Korea. For example, under these arrangements:

i) Co-financing Facility for Africa, a joint financing facility under which Japan International Cooperation Agency co-finances public-sector projects, provided approximately USD 485 million to 11 projects aimed at strengthening national and regional power and transportation systems in RMCs over the initial five-year period that ended in 2010. The facility has proved particularly effective at leveraging the Bank's limited resources to achieve maximum coverage and development impact;

ii) The Bank and the Islamic Development Bank have each earmarked USD 500 million over a three-year period starting in 2011 to co-finance sovereign projects.

4.12 Despite increased mobilization and commitment of funds, actual disbursement levels of mobilized funds remain low, standing at 37 percent for bilateral Trust Funds and 26 percent for multilateral Trust Funds as of end March 2012. In a bid to enhance the use of these resources, the Bank has focused on reducing the level of tying in existing trust funds and mobilizing untied trust funds, raising UA 82.4 million 2011 compared with UA 46.8 million in 2010. Moreover, Management has decided to more strategically align non-statutory resources with the Bank's corporate priorities as well as mainstream these resources into the annual work programs and budgets of organizational units. A Standing Committee on Partnerships has been established to review and clear all future funding proposals. In addition, Management will pursue the cancellation of trust-fund activities not disbursed within six months.

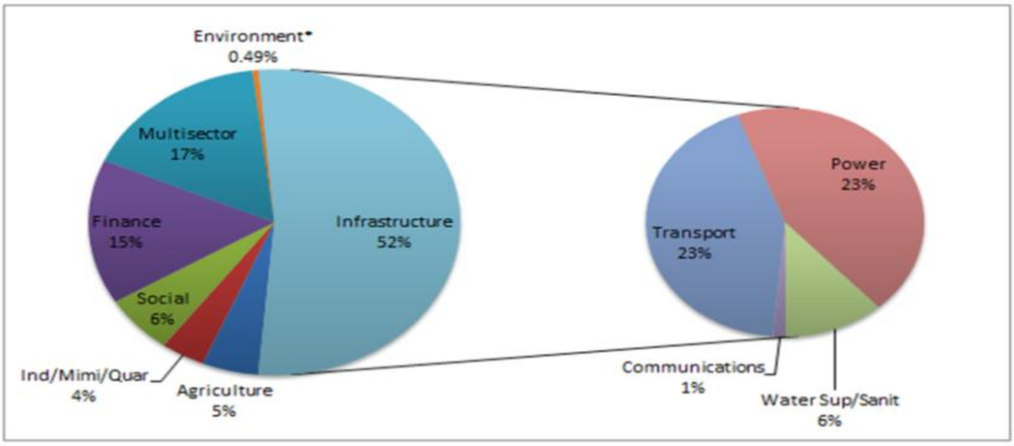
Impact of Reforms on Operational Performance

4.13 As indicated in prior sections, the reforms implemented since 2006 have yielded greater efficiencies and effectiveness in Bank operations in tandem with the increase in institution's resources (human, technical and financial). The impact on the Bank's operations is evident in the increased lending volumes, improved portfolio management and reduced processing times thanks to better-defined and more effective business processes

4.14 ***Increased lending volumes and alignment with Bank Group priorities:*** The overall level of Bank Group assistance as measured by disbursement amounts increased 1.7 times, from UA 1.86 billion in 2008 to UA 3.23 billion in 2011. The improvements in the Bank's internal allocation process as reflected in the stronger alignment of human and financial resources with the Bank's core priorities have resulted in a lending focus that corresponds to the Bank's 2008-2012 MTS priorities. In this respect, 52 percent of new approvals over the 2007-2011 period were in the infrastructure sector (See Figure 2).

Figure 2: 2007-2011 Lending (approvals) by Sector

(Percentage)



* *Includes environmental-only projects. Environmental components are, however, present in nearly all Bank projects.*

4.15 ***Improved portfolio performance:*** The Bank has undertaken various measures to ensure the close monitoring of and improvement in the quality of its portfolio. For instance, the introduction of the monthly Outliers and Exceptions Report in 2009 and the Committee on Development Effectiveness approval of a new set of guidelines for preparing country portfolio performance reviews have greatly improved monitoring and reporting. Both tools provide the basis for corrective measures. Complementary measures aimed at improving quality at entry include the 2010 launch of the Operations Learning and Knowledge Seminar Series, focusing on topical operational issues, has also helped sensitize staff and Management to the importance of portfolio quality and the Committee on Development Effectiveness approval of guidelines for project Implementation and Results Reporting in 2011 which are expected to contribute to the quality of project supervision and therefore to the improvement of the Bank's portfolio.

4.16 Other measures that have positively affected the quality of the Bank's portfolio include: (i) improved quality at entry through an enhanced review process, e.g., the introduction of readiness filters (see also para. 3.3 of the Results Paper); (ii) enhanced decentralization matched with improved staffing capacity, especially in FOs and (iii) improved project supervision with increased use of FOs. For example, the percentage of operations supervised twice a year increased from 33 percent in 2008 to 57 percent in 2011 (63 percent in ADF countries), and the percentage of projects managed by FOs grew from 7 percent to 25 percent over the same period. It must be recognized, however, that for some indicators, performance in 2011 was slightly below that of 2010.

4.17 Progress has been recorded in incorporating and addressing cross-cutting issues in Bank operations, e.g., in ensuring Bank-supported operations are climate-resilient. Given the weak progress in gender mainstreaming, however, Management is focusing on further tightening quality-at-entry processes to ensure gender mainstreaming and incorporation of gender objectives in project design and Bank operations. (See Annex III of the Results Paper).

4.18 ***Reduced processing times****:* The increased number and deployment of fiduciary staff to FOs since 2009 has increased the focus on enforcement of fiduciary safeguards and has yielded efficiencies. In this regard, the number of project audits completed within the stipulated six-month period after the fiscal year-end has increased substantially, from a low 9 percent in 2009 to 59 percent at the end of 2011 (29 percent in 2010). The quality of the audited financial statements received in 2011 also considerably improved, with only 10 percent of audit reports returned to Project Implementation Units (PIUs) for clarifications and corrections. The turnaround period for review of audit reports is also improving, with the establishment of Regional Financial Management Coordinators facilitating delegation of report reviews and tracking for timely submission. The processing target of 10 working days to respond to PIUs on any financial management issues arising is expected to be met by end-2013.

4.19 In the area of procurement, strengthened capacity has enhanced the Bank's support to its clients throughout the cycle, leading to a significant improvement in the quality and speed of procurement decisions over the reform period. Consequently, the time cycle for procurement of high-value contracts awarded on the basis of International Competitive Bidding has steadily improved, with the average processing time declining from 363 days in 2009 to 296 in 2011 for services, and from 388 to 291 days for works. However, the average time it took to complete procurement of goods and work remains above the target of 8 months. Management will continue to leverage the Bank's increased field presence to improve the processing speed through timely identification and addressing of related challenges. The Bank is also employing innovative initiatives such as the recently introduced fiduciary clinics, which train staff of Country Teams and PIUs through customized training modules developed to address specific issues arising during project implementation, in order to improve project management at the country level and enhance the gains made. (See also para. 6.4)

4.20 ***Positive external perceptions of the Bank's performance*****:** The results the Bank's ongoing reforms are improving perceptions by its development partners. Independent assessments of institutional effectiveness, efficiency and delivery of value for money reveal that, despite the challenging context in which the Bank is operating, the Bank Group's performance has been found to have significantly improved and thus the Bank is increasingly perceived as performing well relative to its peer multilateral agencies. For example, the Bank was favorably assessed in the UK's and Australia's Multilateral Aid Reviews of 2011 and 2012 (see Box 3). By most accounts, the Bank's operations are yielding greater development effectiveness compared to its performance at the onset of ADF-11 in 2008. Today's Bank also has a greater capacity to support innovative operations. One of these is the Zambia Itezhi Tezhi Power Project, which aims to construct a hydro-electric power plant adjacent to the existing Itezhi Tezhi Dam; the project will use the existing reservoir under a public–private partnership structure, with ADF resources to finance the government's equity participation and ADB resources to support the consortium of private enterprises.

Box 3: Partners' Perspectives on the Bank

The Department for International Development (DFID) Multilateral Aid Review (March 2011)[24] assessed 43 multilateral organizations on their ability to deliver value for money, based on 10 criteria concerning their contribution to UK development objectives, organizational strengths and likelihood of positive change. The ADB was found to perform satisfactorily overall and to deliver good value for money, thereby ranking in the second of four groups of organizations. DFID particularly commended the ADB for its:

- strong focus on and close working relationships with low-income African countries;
- significant operational focus on economic growth, large infrastructure and governance;
- clear mandate and good reporting of engagement in fragile states;
- good policies in the fields of gender equality, climate change and environmental sustainability;
- improvements in results measurement and management to increase the quality of its operations;
- transparent resource allocation process and extensive financial accountability;
- compliance with value-for-money considerations, zero-growth administrative budgets and strong procurement systems;
- systematic and extensive disclosure and publication of documents.

At the same time, a number of areas of further work and improvement were identified:

- decentralizing, particularly achieving an effective capacity and capability of field offices (staffing, authority and business processes), especially in fragile states;
- engendering a Bank-wide focus on delivering results, and better evaluating the impact of country strategies and projects;
- enhancing the concrete impact of gender mainstreaming on the lives of women and girls;
- implementing identified actions on climate change;
- encouraging a more explicit focus on cost-effectiveness in administrative budgets and project design.

In its response to DFID, Management recognized the scope for continued improvement and expressed its commitment to maintaining its strategic selectivity and operational focus; deepening its implementation of institutional reforms; strengthening its policies in key areas such as information disclosure, civil society engagement, and environmental and social safeguards; and adhering to the highest standards of institutional integrity in order to deliver development results and lasting improvement in the lives of people in Africa.

The Australian Multilateral Assessment (AMA; of March 2012)[25] assessed 42 multilateral organizations against seven components related to results, relevance and organizational behavior. The ADB was rated "strong" on 5 of the 7 components and thus ranked in the second of four groups of organizations, which are deemed to be reasonably able to deliver tangible development benefits and good value for money.

The AMA positively assessed the ADB's:

- operational focus and quality of investments in infrastructure, governance, the private sector, and higher education;
- delivery of strong tangible results at the country level and in support of regional integration, making it an important contributor to Africa's development;
- framework for monitoring and evaluation, particularly through OPEV, and implementation of evaluation recommendations;
- open and transparent results reporting through the Africa's Development Effectiveness Review, on

[24] http://www.dfid.gov.uk/What-we-do/How-UK-aid-is-spent/a-new-direction-for-uk-aid/Multilateral-Aid-Review/
[25] http://www.ausaid.gov.au/partner/Pages/ama-submissions.aspx

both the Bank's strengths and weaknesses;

- effective performance in fragile states, demonstrating comparative advantage in working at the early stages of recovery and a preparedness to tackle and manage operational risks in post-crisis situations;
- growing role in the global multilateral architecture as a trusted partner of African governments and playing an effective role in promoting donor coordination at regional and country levels.

The AMA also identified certain areas with room for improvement:

- integrating results reporting to better incorporate cross-cutting thematic priorities, and undertaking more effective consultation with beneficiaries to set, frame and evaluate results;
- making more progress in integrating climate change mitigation across core operations;
- achieving greater impact, including of gender considerations, in project design;
- strengthening human-resource management, particularly as concerns transparency of appointment processes, results-focused performance incentive structures and career progression.

4.21 ***Remaining Challenges***: The Bank Group continues to experience disbursement delays. Despite an initial marked reduction in the time lapse between approval and first disbursement from 21.3 months in 2007 to 11.01 in 2009, the Bank witnessed a reversal in 2010-2011 with this period increasing to 13.34 months in 2011 (12.04 months in 2010). Furthermore, although the quality of operations has improved significantly, particularly in countries with FOs, the overall Bank Group disbursement ratio[26] has consistently remained below the 30 percent target (20 percent for the ADF). The 2011 disbursements under the ADF window, at UA 1.12 billion, were slightly below the target of UA 1.29 billion, though the 18 percent disbursement ratio for ADF operations in 2011 was marginally better than for 2010 (17 percent), and also better than for the overall Bank Group portfolio.[27]

4.22 Management has identified some causes of the low disbursement rates, including (i) signature delays; (ii) weaknesses in client country capacity; (iii) delays by clients in fulfilling conditions of first disbursement; (iv) complexity associated with tasks preceding first disbursements inherent in some of the Bank's high-priority sectors, e.g., environmental and social safeguards, and legal requirements associated with infrastructure projects; (v) the impact of political events in some RMCs affecting the original disbursement plans; and (vi) a lack of effective financial and operational management teams (see also para 4.3 and 4.4 of the Progress Report).

4.23 Management will continue to work towards improved disbursement performance by continued focus on improving project readiness, fine-tuning and implementing the measures in the Decentralization Roadmap to strengthen FOs, reducing the number of aging operations and accelerating portfolio clean-up. The incentive for cancelling poorly performing operations contained in the May 2011 *Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees,*[28] among others, should help to achieve this goal. Management will also explore ways to improve project coordination and resource management as well as support to the Bank's clients in order to strengthen their capacity and address constraints (see also para. 3.6-3.8 of the Results and Development Effectiveness Paper).

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[26] The disbursement ratio is calculated at the end of the calendar year by dividing the total ADF disbursement since the beginning of the year (excluding disbursements associated to operations signed during the year, grants made for studies and institutional capacity building, and Policy Based Operations) by the undisbursed balance of resources at the beginning of the year.

[27] Although there are some methodological differences, the World Bank (IBRD/IDA) and the Asian Development Fund also had disbursement ratios of about 20% (2010 data). Management is undertaking an internal review to identify the critical factors (both on the part of the Bank and its clients) affecting the Bank Group's performance as regards the disbursement ratio targets.

[28] ADB/BD/WP/2010/106/Rev.3/Approval

5. Enhanced Transparency, Integrity and Accountability

5.1 The Bank remains committed to inculcating a culture of transparency, integrity and accountability within the institution, and promoting these principles among its clients. It also recognizes the importance of strong communication and engagement with stakeholders in order to enhance ownership, awareness and understanding of its activities as well as accountability for use of public funds. This section presents several measures that the Bank has undertaken to strengthen these capacities within the institution and among its clients, and to contribute to the fulfilment of its ADF-12 commitments in this area.

Enhanced Communication, Information Disclosure and Engagement

5.2 Engagement, disclosure and transparency of operations are crucial elements in ensuring the Bank's accountability to its shareholders and stakeholders as a custodian of public funds. Towards this end, the Bank has continued implementing its communication strategy and has adopted a forward-looking disclosure policy, as well as an inclusive civil-society engagement framework, as part of its efforts to promote increased ownership among and accountability to its various stakeholders.

5.3 The Bank is also updating its communication strategy to further enhance its visibility, franchise value and branding over the 2012-14 period as well as integrate communication aspects related to the disclosure to and engagement with its stakeholders. The strategy's primary goal is to make the Bank and its activities better known to clients, partners, civil society and other parties. To that end, efforts have included redesigning the Bank's website to facilitate engagement, including through social media platforms. The Bank's website, under the rubric "Have Your Say", has been instrumental in soliciting wider stakeholder views in the development of operational policies, country and regional strategies, and new initiatives such as the preparation of the Long-Term Strategy and Policy on Disclosure and Access to Information. The Bank has also continued to reach out to stakeholders, by sponsoring media events such as the Africa Media Initiative, the Africa Media Executives Forum, and World Press Freedom Day.

5.4 In order to enhance transparency and accountability, in 2011-12 the Bank overhauled its disclosure policy to align it with international best practices. The new Disclosure and Access to Information (DAI) Policy[29], adopted in April 2012, primarily aims to provide the Bank's clients and other actors with information about the Bank's activities. Developed through a consultative process with external stakeholders, the new DAI features a strengthened presumption of disclosure, i.e. replacing the positive list of information that could be disclosed with a limited negative list of items that cannot be disclosed. The policy also provides for a clear appeals mechanism and simultaneous information disclosure to a wide range of stakeholders. It gives the Bank Group an improved information disclosure framework for policies, strategies and key decisions made during project development and implementation, which will be available to stakeholders.

5.5 Following its adoption, the DAI policy will be rolled out over the 2012-13 period and will entail greater involvement of FOs in the disclosure of country-specific information, including knowledge products. Its successful implementation will require training of staff and upgrading of the IT systems to ensure they facilitate effective disclosure of information as required by the new DAI, especially within the decentralized context of the Bank.

5.6 The Bank is also committed to promoting accountability, inclusiveness and ownership of its activities through greater engagement with civil society actors. It has therefore developed, through an extensive public consultation process, a new Civil Society Organizations Engagement Framework.[30] The overarching objective of the framework is to help the Bank achieve greater results and impacts through improving its collaboration with the Civil Society Organizations (CSOs) and strengthening the existing mechanisms for participation and

[29] http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Rev%203%20-%20Bank%20Group%20Policy%20on%20DAI%20(2)%20web.pdf

[30] http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/CSO%20Framework%20Web%20consultation%20EN.pdf

coordination. It will facilitate, mainstream and broaden the participation of CSOs in the development of the Bank's programs and policies as well as monitoring development results in RMCs. The CSO Engagement Framework also aims to maximize opportunities to develop partnerships with CSOs at the corporate, country and project levels.

5.7 The Bank's efforts in promoting transparency and accountability on the continent have been recognized by external stakeholders. For example, the 2011 Pilot Aid Transparency Index conducted by the Publish What You Fund organization ranked the ADB third out of 58 donors surveyed, owing to a demonstrated relatively high level of transparency at the organization level; at country level, through consistent publishing of its strategy papers; and at the activity level via the provision of information on projects.

Measures to Strengthen Institutional Integrity

5.8 Pursuant to actions undertaken during ADF-11 and in order to keep pace with the increase in number and volume of Bank Group operations and Field Offices, Management has continued to strengthen the Bank's capacity to promote integrity, fight corruption and manage operational risks. The recently approved new Sanctions Process will support the implementation of the Agreement for Mutual Enforcement of Debarment Decisions[31] jointly with other MDBs. Moreover, institutional integrity is now better assured, as Management has (i) reinforced the Integrity and Anti-Corruption Department (IACD), established in 2010; (ii) further elaborated the Enterprises Risk Management agenda to strengthen internal controls and (iii) expanded the Office of the Auditor General's activities to increase the frequency of audits of departmental operations and FOs.

5.9 ***Strengthened Anti-corruption Capacity***: In order to strengthen the Bank's capacity to more effectively and efficiently detect and deter fraud and corruption in the Bank and in Bank-financed projects, IACD has gone through significant changes over the last two years. In anticipation of an increasing and complex case load arising from continued expansion of the Bank's sovereign and non-sovereign operations, the department has improved its organizational structure, capacity and business processes in line with sister institutions' best practices. IACD will now have separate preventive and investigative functions. This separation of functions will help scale up the department's pro-active and preventive activities in order to closely integrate program integrity in Bank operations. The work of IACD will be further reinforced through the new sanction procedures.

5.10 ***Strengthened Audit Functions***: In line with commitments made during the ADF-12 discussions, all FOs including RRCs will now be audited at least once every two years. Management has matched the increased demand for annual FO audits and the expanded audit assignments in IT, treasury and operations including private-sector activities with an increase in audit staff.[32] Management is also setting up a computerized audit reports compliance system running under SAP to improve efficiency.

5.11 ***Harmonization of Cross-Debarment Procedures***: Following the Agreement for Mutual Enforcement of Debarment Decisions, adopted in April 2010, the Bank is putting into place internal mechanisms for addressing and sanctioning violations of its anti-corruption policies that incorporate the core principles of the agreement. These mechanisms include the sanctions procedure approved by the Board of Directors in July 2012. The procedure assures the independence of the sanctions process and facilitates (i) the separation of the investigative and decision-making roles and the appeals mechanisms, (ii) the creation of independent bodies to handle sanctions, (iii) decisions on modalities for the publication of sanctioned entities on the Bank's website and the provision of information to other interested parties including IFIs and (iv) the development of the Bank's enforcement mechanisms and policy for implementing the Agreement on Cross-Debarment. The Bank's procurement rules have also been revised accordingly.

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31 http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/AGREEMENT%20FOR%20MUTUAL%20ENFORCEMENT%20OF%20DEBARMENT%20DECISIONS.pdf

32 The Office of the Auditor General covered 20 audit assignments in IT, Treasury and Operations including private-sector activities in 2011 and plans to undertake 19 audits in 2012 in the same areas in order to adequately cover the Bank's new financing instruments.

5.12 In order to keep up with the increased volume and complexity of the Bank's business, Management will under ADF-12 continue to reinforce its transparency, integrity and accountability capabilities. Measures in this regard will include the deepening of the Bank's internal checks and balances to better support decentralized operations, better manage emerging risks and ensure appropriate staffing levels for implementation of the adopted measures.

6. Better Safeguards and Risk Frameworks

6.1 The increasingly dynamic regional and global context within which the Bank operates, as well as the increased complexity and decentralization of Bank operations, calls for enhanced risk safeguards functions and capabilities. This section highlights the actions Management has taken to reinforce the institution's fiduciary (financial management, procurement and risk management) as well as environmental and social safeguards functions. The actions are expected to improve management and mitigation of associated risks as well as provide more effective, decentralized support to RMCs. The Bank's implementation of the reform measures is on track with exception of the adoption of the Integrated Safeguards System (ISS), which is expected to be ready for Board consideration in December 2012 given the need for extensive consultations with all relevant stakeholders.

6.2 ***Enhanced Internal Controls***: In order to mitigate risks associated with (i) increased complexity and volume of Bank operations, (ii) more decentralized decision-making, (iii) increased fiduciary responsibilities under trust funds, bilateral and multilateral arrangements and (iv) the uncertainties associated with business continuity events, the Bank adopted an Operations Risk Management Framework in March 2012 to strengthen internal controls. This Framework (i) facilitates coherent and comprehensive governance, (ii) creates a systematic process for identifying and assessing operational risk exposures (including reputational risk) faced by the Bank, (iii) fosters well-defined accountability and responsibility for managing risks; (iv) ensures consistent and timely risk reporting and a sustained risk-smart environment within the Bank and (v) promotes efficient allocation of risk capital. The framework will be implemented in phases and is expected to be ready for integration with the Bank-wide risk management framework by the end of 2014. Other measures include the establishment of a dedicated credit risk committee, aimed at strengthening credit risk management and ensuring end-to-end risk governance by, reviewing all credit risk related issues and making recommendations for OpsCom consideration.

Strengthening Capacity to Assure Fiduciary Safeguards

6.3 Measures to reinforce fiduciary safeguards in Bank Group operations have included (i) the establishment of the Procurement and Fiduciary Services Department, (ii) continued benchmarking of Bank Group's practices with those of other MDBs and (iii) adoption of best practices and stronger procurement safeguards as part of the greater use of country systems. Management has further implemented procurement and financial management reforms focused on (i) strengthening fiduciary oversight; (ii) building staff capacity in relevant departments to provide the country-level support required to improve governance, transparency and accountability in RMCs and the FOs and (iii) improving the quality of operations in RMCs. The move to enhance proximity of procurement and fiduciary services to RMCs has also been matched by a revised Delegation of Authority that empowers field offices and takes decision-making closer to the clients (see also para. 3.6).

6.4 The Bank continues to conduct capacity-building initiatives, such as the Fiduciary Clinics introduced in 2011, to enhance Bank staff capacity in addressing practical project-implementation issues related to procurement, financial management and disbursement at the project and country levels. During the ADF-12 period, the capacity of Sector Task Managers, Country Program Officers, Country Economists and Operations Assistants who work directly with countries has been enhanced through procurement and financial-management training programs.[33] These Task Managers now systematically engage fiduciary staff in all stages of the project cycle.

6.5 ***Focus on Country-level Operations:*** The Bank has taken several measures to ensure that the ADF and other resources are used for the intended purposes at the country level. To this end, the Bank introduced Independent Procurement Reviews in Bank operations in January 2012, intended to review the procurement, contracting, and implementation processes and the timeliness and appropriateness of no-objections issued by the Bank, in order to ensure their consistency with the Bank's fiduciary guidance. Other measures include the ongoing development of a procurement risk assessment and management framework intended to improve determination of fiduciary safeguards required at the project-operation level. The Bank has also, in line with its commitment to the use of country systems, assessed and approved the national competitive bidding procedures of 42 countries, representing 97 percent of loans and grants, for use in Bank Group financing.

6.6 The Bank commissioned an Independent Fiduciary Safeguards Review in 2011 to assess the effectiveness and adequacy of its current fiduciary risks safeguards, perform a gap and needs analysis and recommend improvements to ensure timely and efficient implementation of the Decentralization Roadmap. The review also focused on the level of alignment of the Bank's current fiduciary safeguards management structures with the Bank's objectives. Some of the review findings are that project audit quality has been variable, that the implementation of fiduciary safeguards lags behind policy, and that decentralization under a zero-budget increase has constrained growth in staff capacity required for implementing fiduciary safeguards. The review recommended, among other things, that the Bank (i) prioritize implementation of operational risk management framework, (ii) clarify roles of various parties in enterprise risk management and identify risk-management responsibilities from the Board downwards, (iii) consider appointing a Chief Risk Officer, (iv) accelerate the implementation of the 2009 Internal Audit Report, and iv) consolidate progress made by ORPF since its establishment. Management will review the recommendations and take the appropriate measures.

Reinforcing Environmental and Social Safeguards

6.7 ***Status of Processing the New Integrated Safeguards System***: During the ADF-12 consultations, Management committed to updating the ISS comprising of existing Environmental and Social Assessment Procedures (ESAPs) and the Integrated Environmental and Social Impact Assessment (IESIA) policies. The Bank has made significant progress in consolidating and updating the ESAPs to make them more comprehensive, accessible, easy to use and current as well as aligned with other MDBs' policies and procedures. As part of this effort, the ESAPs' operational safeguards have been updated to cover issues related to biodiversity and ecosystem services; climate change; the prevention, control and management of pollution and labor conditions; health and safety. The revised IESIA, expected to be updated in 2012, is under development and will incorporate lessons learned from implementing the existing ESAPs and IESIA, and inputs and feedback from planned extensive stakeholder consultation. Online and regional consultations in Africa are ongoing.

6.8 Once approved by the Board, effective implementation of the ISS will require active support and dedicated resources from the Bank and its partners. The Bank will also need to strengthen its institutional capacities in this regard, train its staff and clients as well as provide technical guidance to help project developers and client countries address environmental and social impacts and risks.

6.9 ***Continued Accountability through the Independent Review Mechanism (IRM)*:** The Bank has ensured that a system for independent response to complaints of adverse effects from Bank financed projects is in place. In order to strengthen the independence and objectivity of the process, the Bank has separated the roles related to complaints filing and investigation from the decision-making process on the complaints. In addition, in order to strengthen compliance, IRM employs two approaches: (i) problem solving (mediation), which deals with complaints; and (ii) an IRM Compliance Review, where the Bank takes action to bring the

[33] Approximately 300 staff joined the procurement accreditation program, and 100 staff joined the financial management training programs organized by ORPF.

investigated projects into compliance with Bank policies.

6.10 Management is executing an IRM outreach strategy in order to raise awareness of the IRM mandate and processes among civil society organizations, local communities, project implementation units, government institutions and the Bank's staff. Awareness-raising events were conducted in 17 RMCs during 2010-11; 1,022 representatives of these targeted groups participated. Furthermore, Management, in response to recommendations of local communities, prepared a simple community information kit on IRM procedures, which is now available in the Bank's two official languages in addition to 12 other national and locally spoken languages in 27 RMCs. Requestors can now use various means to submit complaints. The Bank also includes information about the IRM's mandate in the Bank Group's policies and project documents, and supports IRM outreach activities.

6.11 Partly as a result of the improved accessibility to IRM, the Bank Group was able to register requests in 2010 relating to two Bank Group-financed infrastructure projects (the Medupi Power Plant Project, South Africa, and Dakar-Diaminiado Highway Project, Senegal). After mediation, the Dakar-Diaminiado requests were handled successfully, leading to the signature of settlement agreements between project promoters and the affected people. The review and discussions on the Medupi Power Plant are ongoing, and the issues are expected to be resolved in 2012.

Strengthening Risk-Management Capacity

6.12 In anticipation of the substantial growth in the Bank's lending portfolio, particularly in private-sector operations (including in ADF countries), Management committed itself to conduct a risk-management capacity assessment and to subsequently implement a risk-management reform plan. The assessment of the Bank's capacity, which was undertaken in 2010-2011 by reputable and independent consulting firms, concluded that although the Bank had sound risk-management foundations, steps could be taken to strengthen the Bank Group's related capacity and improve its risk-management framework.

6.13 As part of risk management reforms, Management has defined the Bank's risk appetite,[34] particularly for private-sector operations.[35] The Bank has also revised its capital-adequacy framework to allow monitoring of exposure to various sectors, as well as management of concentration risk. Through adequate portfolio monitoring, efforts are being made to keep the weighted average risk profile and other key prudential ratios within their limits. This has been reinforced by an increase in administrative and capital budgets for improved software as well as increased risk management staffing from 39 in 2009 to 50 in 2011. A new Credit Risk Committee composed of Management and risk experts was set up in June 2012 to strengthen credit-risk governance and credit assessment and to monitor the Bank's portfolio.

6.14 Management developed an Income Model Framework in its efforts to achieve a balance between demands for development assistance through the use of the Bank's limited financial resources and the need to maintain the Bank's financial sustainability, solidity and integrity.[36] The income model enables the Bank to build a strong financial framework through (i) a net income allocation process, with priority given to strengthening reserves and transferring adequate resources to low-income countries; (ii) a loan pricing mechanism that ensures the adequate coverage of operational expenses with loan income; and (iii) a disciplined budget process during which the Bank's efficiency ratio (the ratio of administrative expenses to operational revenues) is well-monitored.

6.15 During the coming months, the Bank will operationalize its risk-monitoring dashboard, which will give the Board and Management adequate oversight of key risk parameters for decision-making. Further work is also underway on the implementation of an integrated risk platform for the credit-risk approval, assessment and reporting process, which will improve the Bank's risk infrastructure and increase its resilience against risk factors.

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[34] See document entitled *"Proposal for a definition of the Bank's risk appetite, risk dashboard and enhancement of credit risk governance".* ADB/BD/WP/2011/53.

[35] The definition of the risk appetite and the implementation of the income model were two key pillars that contributed to significantly strengthen risk governance within the institution since 2011.

[36] See document entitled *"Proposal for an Income Model for the Bank ".* ADB/BD/WP/2010/203/Rev.2.

7. Conclusion: The Way Forward

7.1 In a bid to strengthen its ability to deliver on its development mandate and contribute to poverty reduction, the Bank Group's management committed to a series of institutional reforms aimed at strengthening its capacity, effectiveness and efficiency. The reforms have strengthened the Bank's resilience, adaptability and ability to respond to its shareholders' needs and constraints within the turbulent and rapidly changing context.

7.2 Most of the institutional reforms that Management committed to during the ADF-12 discussions are on track and will be completed by the end of 2013 (see Annex I for a summary assessment of performance as at the ADF-12 Mid-Term Review). The Bank has made significant progress in rolling out its decentralization agenda and strengthening the related capacities in staffing and IT systems. Building on previous reform actions, these measures are positively impacting the Bank's delivery effectiveness and efficiencies, improving Bank's engagement at the country level; improving portfolio performance trends; and reducing implementation inefficiencies in procurement and fiduciary functions. Specific measures taken by the Bank to further enhance its transparency, engagement with and accountability to stakeholders are promoting better awareness, ownership and relevance of Bank's operations, as shown by the results of various surveys and reviews of the Bank by its partners and clients. The Bank continues to implement measures to strengthen institutional integrity and put into place better safeguards and risk frameworks, which have enhanced its resilience.

7.3 Management is committed to consolidating the gains made so far, to further improving its business processes and to promoting innovation to continuously strengthen the Bank's responsiveness and effectiveness in meeting the evolving needs of its member states. Management will continue to promote a performance- and results-driven culture by assessing progress and results against institutional performance indicators. Management will also continue to instill a culture of continuous improvement and performance within the institution and in the implementation and adaptation of its reform actions to the evolving context, opportunities and challenges. The Bank continues to draw upon lessons learned from evaluations of its policies, operations and business processes by both internal and external parties to inform improvement efforts in these areas. In addition, Management remains committed to promoting knowledge generation and sharing within the Bank as well as with other partners and stakeholders, in order to improve its engagement with and delivery to its clients and stakeholders.

7.4 Although challenges remain, e.g., in reducing staff vacancies as well making the IT system more effective, the Bank will, during the remainder of ADF-12, perform the necessary institutional reviews to ensure alignment of its capacity and systems with the execution requirements of the Long-Term Strategy (under development). For the remainder of ADF-12 and in the Thirteenth General Replenishment of the African Development Fund, the Bank will continue to implement and improve the quality of its institutional effectiveness reforms with a focus on (i) decentralization (especially the needs of fragile states and functionality of the RRCs); (ii) staff recruitment and retention; and (iii) IT requirements, to reinforce internal capacity to deliver and improve the efficiency of other reform measures.

7.5 Deputies are invited to take note of this report on the Bank's continuing reform efforts to strengthen institutional capacity for improved delivery, and to share their views on the pace, direction and progress of the institutional capacity agenda.

Annex I: Status of Key Institutional Reform Actions at the ADF-12 Mid-Term Review

Reform Action		Status
Adoption of updated Staff Compensation Framework and Retirement Plan		Completed
Decentralization of HR functions		Completed
Approval of Decentralization Roadmap		Roadmap approved and under implementation
Implementation of Delegation of Authority Matrix (DAM) for Procurement, Fiduciary Safeguards and Operations		Ongoing, new DAM approved and under implementation
Adoption of Revised Disclosure Policy		New policy adopted in May 2012, implementation to start in second half of 2012
Monitor implementation of Communications Strategy		Ongoing
Adoption of Revised Civil Society Engagement Framework		Completed
Periodic (at least once every 2-3 years) audit by OAGL of Field Offices		On-track, initiated in 2011
Monitor the effective implementation of Bank Group's fiduciary safeguards, and the submission of project audit reports and adherence to financing agreements by borrowers		More work needed to achieve performance targets
Adoption of Revised Environmental and Social Safeguards Policy and Operational Guidelines		Delayed implementation pending adoption of new guidelines in December 2012, on completion of extensive external consultations

Key:

On-track

More work

Significantly delayed implementation

Source: ADB.