

AFRICAN DEVELOPMENT FUND



Corporate Performance Monitoring and Management (Background Paper #1)

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1. INTRODUCTION

1.1 In order to maintain focus on strategic priorities and to improve delivery and results, the Bank will implement in 2007 a performance monitoring system and a related reporting and management review process. This will be based on a set of *Key corporate Performance Indicators* (KPIs), underpinned by measures and indicators for each major area (Complexes).

1.2 Targets and indicators will facilitate management discussion, provide early information on corporate trends and inform decision making. The associated *Corporate Performance Report* or scorecard and the contribution to it by each organizational unit will form the basis for quarterly review meetings with the President and each of his Senior Managers. The information produced will provide the basic building blocks for quarterly communications to the Board.

1.3 The system will help to communicate the Bank's priorities, to maintain managerial and organizational focus on priorities and on deliverables, providing a basis on which performance can be measured and reported. As such it will assist resource allocation at all levels, enhancing accountability both internally and to shareholders.

1.4 The focus of this system will be on corporate level performance rather than country level results or development outcomes. The latter will continue to be pursued separately, particularly through multilateral discussions on Results Based Management, whose aim is to develop a common system for monitoring and reporting performance, including country level outcomes.

2. CORPORATE MEASUREMENTS AND INDICATORS

2.1 The KPIs used in the Corporate Performance Report are organized in four views or *strategic perspectives* which synthesize results, performance and analysis related to the management of: (i) development financing deliverables; (ii) portfolio management and process efficiency; (iii) human resources; and (iv) budget and financial resources.

2.2 Each perspective will be underpinned by a set of KPIs which will be assessed on a regular basis. Perspectives and indicators will inform, and be informed by, targets established for each area, which are agreed and owned by the Senior Manager concerned. Similarly within complexes the use of lower-level indicators will be encouraged to focus efforts, to manage the business and to monitor results.

2.3 Most indicators at corporate level will be cross-cutting. These will be complemented by indicators selected by each Complex, relevant for the effective management of its own business, but also capturing specific elements which will have an effect on corporate performance. The KPIs will not be set in stone but will be adapted and improved with experience, as their utility is tested, and to reflect strategic changes in requirements.

2.4 The proposed targets and the broader managerial goals are based on the units' plans and past results, as well as on managerial judgment and on institutional expectations.

3. THE REVIEW PROCESS

3.1 Performance against targets will be reviewed at the end of every quarter in meetings between the President and senior management of each Complex. The review meetings will focus on delivery, be guided by the measurements, but will also cover other managerial and institutional matters. These are expected to include progress on strategic initiatives,

deployment of human and financial resources, partnerships and collaboration with key stakeholders, risks and reputation issues.

3.2 Guidelines outlining process and required information will be circulated before the meetings. Units submit to the President the supporting information, including complex-level indicators. Agreement on remedial actions and next steps will be main outcomes of the review process.

3.3 Discussions on performance and results will be shared with staff. Cross-functional institutional issues raised during the review will be addressed by jointly Senior Managers. The aggregate performance and the main managerial messages coming from the process will be summarized in a Quarterly Performance Report that follows the conclusion of the reviews.

4. THE ADVANTAGES OF THE SYSTEM

4.1 The main advantages of the system will be:

- Transparent assessment of the results and accomplishments of each unit;
- Appropriate allocation of accountability and responsibility;
- Early and effective identification of problems and underlying issues;
- Conducive discussion and agreement on actions in a cooperative way;
- Continuous monitoring of performance both at corporate and unit level; and
- Focus over time on specific issues and clear managerial messages.

4.2 Continuous analysis performed in order to understand the causes of under or over-performance in respect to some KPIs will have implications for management, including remedial actions and improvements on the robustness and relevance of targets and indicators.

4.3 Analysis of performance over time will provide interesting information on the specificities of each area or sector, allowing the institution to adapt the budgeting/planning process and provide the necessary operational support.

5. LESSONS LEARNED

5.1 This proposal draws extensively on the effort and the lessons learned during the implementation of the Balanced Scorecard (BSC) – which was developed in the previous strategic cycle – as well on and the experience of other MDBs. It corrects the deficiencies of the BSC, including lack of top management commitment, line managerial ownership, and little linkage to the conduct of business.

Lack of ownership was compounded by many misconceptions about the system and its purpose – often conceived either as a data repository or a control tool – and by the selection of too many indicators, some of questionable utility, for which the relevant data was not available. As a result the BSC was not used in planning or decision making, and had no impact on business processes.

6. **THE 2007 CORPORATE PERFORMANCE REPORT (SCORECARD)**

I. Operational Deliverables

– Development Financing

- *Relevance* – Development financing , including loans and grants, remains the core activity of the Bank and the related indicators are the essential measures for monitoring and assessing Bank’s operational performance
- *Data* – Initially the value of the indicators will computed from a refined Project Processing Schedule (APPS) provided by OSVP and OIVP. In the medium term, the Corporate Data Warehouse (CDW) fed by the SAP system will become the official data repository. Units and task managers will remain responsible for ensuring the quality of data input in SAP.
- *Targets* – Overall financing targets at corporate level will be those outlined in the Operational Indicative Plan (OIP) submitted to the boards. Targets for each operational Complex will be agreed and set by end-February 2007. The targets will gauge the contribution to corporate objectives.

– Knowledge Management

- *Relevance* –, Country Strategy Papers, Economic and Sector Work, Research Flagship pieces, Project Completion Reports provide the policy and analytical framework for the Bank’s operations, improve the quality of the portfolio and pipeline, and constitute the institutional knowledge base to be shared with stakeholders.
- *Data* – The list of the products with their expected delivery dates will be provided by the responsible Complexes, including ECON and OPEV. In the medium term the SAP system will be adapted to capture non-lending and knowledge management products processing and the relevant queries set in the CDW.
- *Targets* – Corporate targets will be the derived from the delivery plans of the various complexes, agreed and finalized by end-February 2007 for each responsible unit. Targets at complex level will reflect the respective contributions.

II. Portfolio Management and Process Efficiency

– Disbursement

- *Relevance* – Disbursement levels — measured either in terms of sheer amount and relevant ratios — demonstrate the translation of commitments into substantive activities and the flow of development resources to clients. Disbursement is a function of the quality of operations design and implementation management, as well as borrower commitment.
- *Data* – Initially, the data set on disbursement will be provided by FFCO. The set will allow for computing the disbursement ratio, according to the agreed definition for the different type of data aggregations (*e.g. by sector, country, etc.*). In the medium term, data on disbursement will be systematized in the CDW.
- *Targets* – In 2007, soft targets will be set for disbursement. Improvements over the corporate baseline are sought and expected by all stakeholders. As disbursement is driven by many factors (*e.g. project readiness and implementation, procurement application processing issues*) and accountability for disbursement lies with many agents, the raw data is often a guide to problem areas which need further investigation

and for which corrective action is needed. The latter can then be tracked by management.

– Portfolio

- *Relevance* – The KPI monitored in this section focus on simple size, age and activity factors that describe the portfolio’s strength. Complexes are encouraged to track all other factors specific to their operations that are deemed relevant. The data permits comparisons to be drawn between different sectors, countries and regions, as well as between different management commands.
- *Data* – Indicator values will be initially calculated from refined a portfolio data set be provided by OSVP and OIVP. In the medium term CDW will also be the institutional repository for this information
- *Targets* – Corporate targets will be aligned with the portfolio management and mission plans of the operations complexes which will be agreed and finalized by mid-February. Targets will be set at complex level.

– Process Efficiency

- *Relevance* – Standard time-related measures of project preparation and implementation will help gauge improvements following to the adoption of new business processes, identify problem areas (*at country, sector level*), and where reaction is necessary.
- *Data* – Portfolio and APPS data set contains all the necessary information to derive indicators and analyze underlying factors. In the medium term the official data repository will be CDW.
- *Targets* –No hard targets at corporate or initially at complex level — but complexes and units invited to draft realistic plans, monitor results, compare performance between different units, and take management action as required.

III. Human Resources

- *Relevance* – The KPIs synthesize corporate performance under four HR-related strategic pillars: diversity, recruitment/retention, decentralization and front-line engagement.
- *Data* – Data sets and indicators will be provided quarterly by CHRM.
- *Targets* – Targets will reflect agreed staff allocations established on the base of corporate and complex level plans.

IV. Budget and Financial Resources

- *Relevance* – The KPIs are standard measures of budgetary and resource utilization efficiency – they also allow resource utilization to be correlated with delivery, and a preliminary indication on the need and opportunity for redeployment.
- *Data* – FNVP will provide monthly budget implementation reports by cost center and expense category - future budget data integration in CDW will be discussed.
- *Targets* – Corporate and complex level targets and monitoring thresholds will be set according to allocations.

2007 CORPORATE PERFORMANCE REPORT

Scorecard

I. Operational Deliverables						
KEY INDICATOR	UNIT	BASELINE	TARGET	LAST	VARIANCE	PERFORMANCE
Development Financing						
ADB Public Lending	UA m	665	650			
Private Sector Lending	UA m	270	500			
<u>Total ADB Lending</u>	UA m	<u>935</u>	<u>1150</u>			
Total number of ADB Operations	#	12	20			
ADF Loans	UA m	890	820			
ADF Grants	UA m	484	330			
<u>Total ADF Financing</u>	UA m	<u>1374</u>	<u>1150</u>			
Total number of ADF Operations	#	67	49			
<u>Total Bank Group Financing</u>	UAm	<u>2309</u>	<u>2300</u>			
Knowledge Management						
CSPs	#	18	30			
CPRs	#	8	15			
ESW and Flagship Reports	#	38	80			
PCRs (<i>prepared over due</i>)	%	13.7%	90.0%			

II. Portfolio Management and Process Efficiency						
KEY INDICATOR	UNIT	BASELINE	TARGET	LAST	VARIANCE	PERFORMANCE
Disbursement						
ADB Disbursement Amount	UA m	548	730			
ADB Disbursement Ratio	%	29.5%	36.0%			
ADF Disbursement Amount	UA m	680.0	820.0			
ADF Disbursement ratio	%	18.0%	20.0%			
<u>Total Bank Group Disbursement</u>	UA m	<u>1228</u>	<u>1550</u>			
ADF Portfolio						
Problem Projects	%	12.0%	10.0%			
Project Supervision Rate (<i>missions per project</i>)	%	1.1	1.5			
Average Size of ADF Operations	UA m	15.5	20.0			
ADF Over-Age Projects	%	24.7%	15.0%			
Process Efficiency						
Lapse of Time Appraisal to Approval	Avg. Months	5.6	2.8			
Lapse of Time Approval to 1st Disbursement	Avg. Months	18.4	12.0			
Pipeline Factor (<i>Project Preparation</i>)	%	27.4%	28.6%			
Slippage Factor (<i>Project Approvals</i>)	Weeks	282	140			

III. Human Resources						
KEY INDICATOR	UNIT	BASELINE	TARGET	LAST	VARIANCE	PERFORMANCE
Gender Balance Index	%	22.0%	33.0%			
Vacancy Level	%	19.0%	5.0%			
PL Staff based in the field to Total PL Staff	%	4.5%	9.0%			
Operations Staff to Total in Place	%	55.0%	60.0%			

IV. Budget and Financial Resources						
KEY INDICATOR	UNIT	BASELINE	TARGET	LAST	VARIANCE	PERFORMANCE
Budget Implementation Rate	%	96.0%	100.0%			
Operations Expenses over Total	%	47.0%	50.0%			
Personnel Expenses over Total	%	68.7%	69.9%			
Overhead Expenses over Total	%	17.1%	16.1%			