

Progress Report on Institutional Reforms

Background Paper

ADF-11 Replenishment: Second Consultation Meeting
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AFRICAN DEVELOPMENT FUND

TABLE OF CONTENTS

1	INTRODUCTION	1
2	REPORTING ON KEY AREAS OF REFORMS	1
	<i>Institutional Effectiveness and Service Delivery</i>	2
	<i>Improving Responsiveness and Quality</i>	3
	<i>More Effective Country Presence</i>	4
	<i>New Budget Process and Management</i>	5
	<i>Institutional Governance and Fiduciary Controls</i>	6
	<i>Improved Monitoring of Reform Implementation</i>	7

INSTITUTIONAL REFORMS PROGRESS REPORT

PURPOSE & SUMMARY

This report provides an update for Deputies on progress in institutional reforms, focusing on priority areas identified as critical to ensuring increased Bank effectiveness on the ground.

INSTITUTIONAL REFORMS PROGRESS REPORT

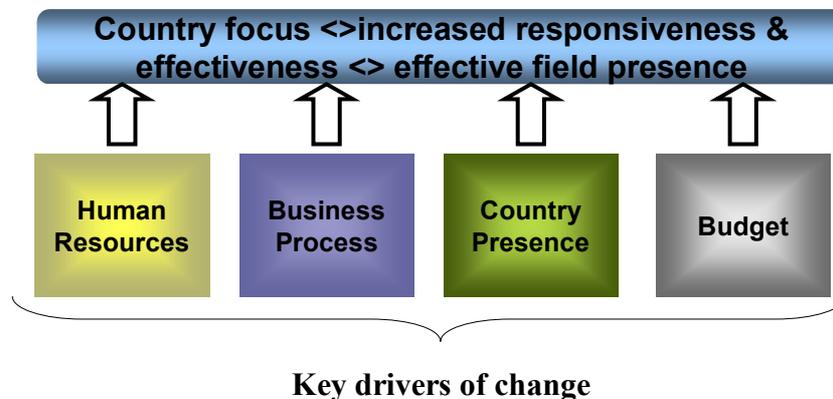
1. INTRODUCTION

- 1.1 This report provides an update for Deputies on progress in institutional reforms, focusing on priority areas identified as critical to ensuring increased Bank effectiveness on the ground.
- 1.2 These reforms, involve: human resources management; budget process reform and management; business processes reform; and, decentralization. In addition, the Bank has also reinforced important aspects of institutional governance and fiduciary controls. Since the last meeting of the Deputies in March 2007, the following have been achieved:
- Core reforms for 2007, including timelines, have been identified and endorsed by Senior Management;
 - A new HR Strategy was approved by the Board on 9th May 2007;
 - A revised Delegation of Authority for Disbursement is now in use;
 - Managerial level recruitment has been completed, and 13 new Resident Representatives have been appointed;
 - Overall recruitment has been accelerated and the process streamlined.
- 1.3 To ensure timely execution of the reforms, a new Reform Implementation Team (RIT) was established, effective 1 March 2007 with a sharpened work program and clarified reporting lines. It briefs the President once a week and the Senior Management Team and the Board once every month.

2. REPORTING ON KEY AREAS OF REFORMS

INSTITUTIONAL REFORM PRIORITIES FOR 2007

Overarching objectives



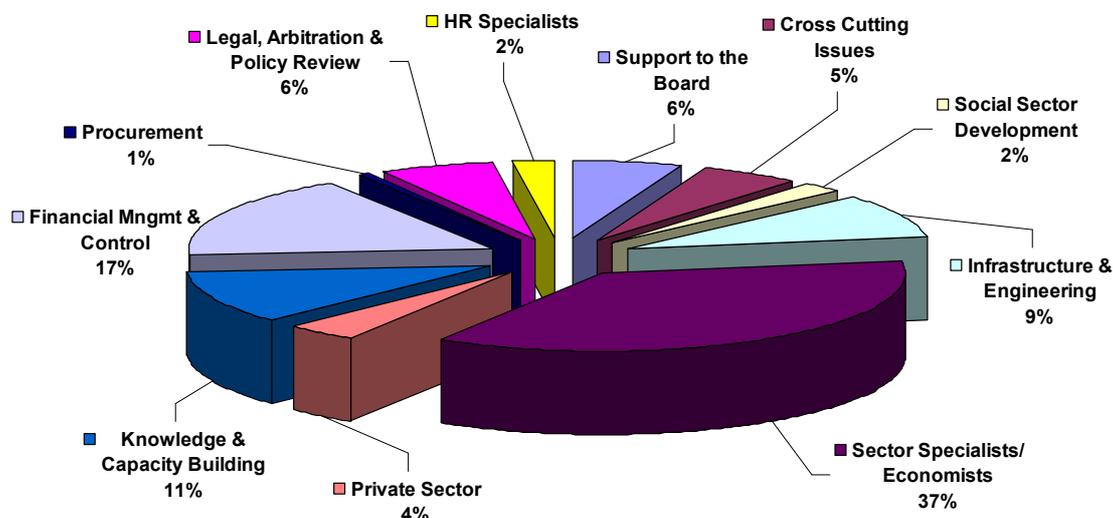
Institutional Effectiveness and Service Delivery

Human Resource Reforms:

Reform	Timeline	Status
Human resource strategy	9th of May 2007	Completed
Staff survey	30th of June 2007	On track
Revision of staff rules	31st of December 2007	On track
Enhanced recruitment of professional level staff	30th of September 2007	On track
Staff and management development programs	NA	Continuous improvement
Introduction of a dual career path	1st of January 2008	On track
Compensation and benefits framework	1st of January 2008	On track
Performance management system	1st of January 2008	On track

- 2.1 A new HR Strategy having been approved by the Board of Directors, Management is now fully engaged in the planning, design and delivery of the HR Action Plan.
- New Compensation and Benefits Management - bring about better alignment between performance and Staff salaries and benefits. Management proposals to be submitted to the Board in June 2007, will also identify rationalization, including monetization of some benefits, to ensure easier and more transparent administration.
 - Job Classification System - alignment and simplification as the foundation for a sustainable remuneration policy and strategy. Dual Career Path – will be further strengthened to encourage and recognize professionalism and technical skills.
- 2.2 A first ever comprehensive staff survey will be launched in 15th June 2007, with the assistance of a reputable international firm. The Survey will provide an opportunity for staff members to express their views on perceived strengths and weaknesses of the institution in order to assist Management in identifying areas requiring further improvement. Its findings will be communicated to Staff, including specific follow up actions to be implemented by Management.
- 2.3 Reduction of capacity gap: staffing and induction of professional staff is in progress, with a delivery deadline of 30th September 2007. The recruitment exercise involves filling a total of 172 positions, which will reduce the vacancy rate for professional positions at Headquarters from 18% to 5%. Recruitment of professional staff is fully underway and, an average of 40 offers will be made monthly between June and September 2007. The campaign will also enable the Bank to acquire new skills required to deliver on some strategic priorities such as governance, infrastructure, water and sanitation, financial and trade specialists, macro-economists, sector and research economists.
- 2.4 As a complement to the recruitment of professionals, the Bank will reintroduce the Young Professionals Program (YPP), with the same target date of 30th September 2007. Twenty (20) Young Professionals, 50% of whom will be women, are to be hired each year during 2007-2009. Besides bringing in new perspectives and skills, the YPP will contribute to the continuing efforts to address key diversity issues.

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Improving Responsiveness and Quality

- 2.5 Operations policies and procedures are being revised to improve quality at entry, efficiency, accountability, portfolio management, and harmonization with development partners. Figure III below outlines the key business processes targeted for reform during 2007.

Business Process Reforms

Reform	New/latest timeline	Status
Operational programming	31st of July 2007	On track
<i>Formats for appraisal reports, concept notes, CSPs</i>	30th of June 2007	On track
<i>Project design and review process</i>	30th of May 2007	On track
<i>Operations Committee Support Unit</i>	1st of June 2007	On track
Size of operations and approval authority	6th of June 2007	On track
Delegation of authority	31st of May 2007	On track
<i>Delegation to field offices</i>	31st of May 2007	On track
<i>Distribution between regional and sector departments</i>	31st of May 2007	On track
<i>Increased delegation overall</i>	31st of May 2007	On track
Operations manual	NA	Continuous improvement
<i>Comprehensive revision and simplification</i>	NA	Continuous improvement
Procurement & Financial Management Services	5th of September 2007	On track
<i>Revision of procurement rules</i>	5th of September 2007	On track
<i>Revision of presidential instructions</i>	18th of June 2007	On track
<i>Restructuring of procurement and financial management services</i>	11th of July 2007	On track
<i>Training and accreditation of staff</i>	31st of August 2007	On track

- 2.6 An Operations Committee was established in August 2006 to ensure improved coherence, coordination, compliance, strategic selectivity and quality at entry of Bank Group interventions. Recruitment of staff for a dedicated support unit is underway and will be completed by July 2007.

- 2.7 The process of country programming has been strengthened. Country Departments play the lead role and ensure full participation of all concerned, in particular Country Offices, Sector Departments, and knowledge units such as the offices of the Chief Economist, General Counsel and Operations Evaluation. Country Teams with participation from across the Bank have been constituted to ensure, among other things that program and financing instrument choices are based on adequate economic and sector analysis; that there is selectivity in Bank interventions; and that they are fully integrated into the RMC's priorities.
- 2.8 Delegation of Authority – effective in June 2007, operational decision making will be formally revised to achieve greater delegation and accountability, and hence faster delivery of higher quality services to the clients. The role of Regional Departments and Country Offices has been strengthened, with necessary safeguards provided. The new system also includes a clearer delineation of responsibilities and areas of collaboration between the Regional and Sector Departments.
- 2.9 Delegation of Authority for Disbursements and Loan Accounting – approval level for Disbursement Officers has been increased from UA 100,000 to UA 1,000,000. The same level will, after due accreditation, be extended to disbursement officers in the Country Offices. The new system incorporates features to help control the quality and management of loan administration data. A revised Disbursement Handbook, for use by both staff and clients, has been launched. It contains improvements on the disbursement thresholds, submission of background documents and more effective integration of Country Offices in the processing flow.
- 2.10 Revised Procurement Process - An extensive review of procurement rules, policies and procedures, including a proposal to restructure the Bank's procurement and financial management services, is under discussion with the Board. The various components of this very important reform are scheduled to be completed by September 2007.

More Effective Country Presence

Decentralization Reforms

Reform	Timeline	Status
Tailored staffing of field offices	31st of July 2007	On track
IT and communications facilities	31st of December 2007	On track
<i>Incremental bandwidth</i>	30th of September	On track
<i>Electronic filing system</i>	30th of September	On track
<i>SAP training of FO staff</i>	31st of December 2007	On track
Field office manual	31st of August 2007	On track

- 2.11 The Bank is now present in 22 Regional Member countries and about to achieve the target of 25 offices adopted under the Decentralization Program approved in 2004. Of the three outstanding Host Country Agreements, one (Sudan) was signed during the 2007 Annual Meetings, and the remaining two agreements (Algeria and Angola) are expected to be finalized soon.
- 2.12 Thirteen new Resident Representatives have been selected, including five highly experienced external candidates. All have undergone an intensive 3-day induction program in Tunis, with extensive participation by Senior Management.
- 2.13 The Bank has comprehensively reviewed the existing staffing in all Country Offices against the specific demands and strategic priorities for individual countries. Regions and Sector Departments have agreed to specific staffing and skills profiles for each office which better responds to the size and challenges of the portfolio, as well as the Bank's strategic orientations. The recruitment process for resulting vacancies is fully underway. It is planned to complete the exercise by 31st July 2007.

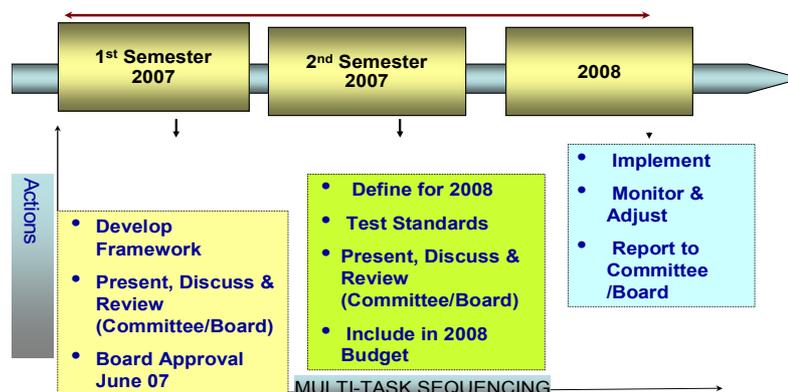
- 2.14 Country Office Compensation Policy – Management has proposed a competitive package for both local and international staff in the Country Offices to support the decentralization including:
- Improvement of the compensation package offered to International Staff posted to Country Offices;
 - Integration of Local Staff in the Country Offices into the Bank Pension Scheme.
- 2.15 To reinforce the importance of country experience, Management is taking measures to give it clear recognition in future decisions on staff career development.
- 2.16 IT facilities for the offices are being upgraded to provide reliable and faster communications. Six offices already have upgraded facilities and work on the other offices will be completed by 30 September 2007. The new IT environment, as well as the training of the staff in the offices, will be fully functional and completed by end December 2007.
- 2.17 Given the number of new staff joining the Country Offices, as well as the increased responsibilities, there is need for clear and readily accessible guidelines. To this end, the Country Office Manual is being redesigned and updated. It will also incorporate new and enhanced governance and fiduciary controls (see section on Enhancement of Institutional Governance and Fiduciary Controls).

New Budget Process and Management

- 2.18 A major budget process reform initiative is underway, with strong support of the Board, to address issues related to strategic alignment of the budget and flexibility in the management of resources. The key objectives of the reform are to: i) strengthen the link between institutional priorities and resource allocations; ii) substantially improve institutional budget flexibility; iii) establish a new accountability and performance framework; iv) engage in budget capacity building at the institutional level; and, v) strengthen Bank capacity to deliver on the results agenda.
- 2.19 The 2008 budget cycle will introduce a new budget management environment characterized by greater fungibility of allocations. It will be built on significant empowerment of Managers and the introduction of a performance and accountability framework based on a set of Key Performance Indicators (KPI). Draft proposals have already been discussed with joint Committees of the Board CODE1 and AUF12. The final document will have been considered by the Board on 6th June 2007.

¹Committee for Operations & Development effectiveness
Committee for Audit & Finance

BUDGET REFORM TIMELINE



- 2.20 Budget management reforms specifically include empowerment of Regional Departments (RDs) which will be vested with overall control of operational budgets. Investiture of budget authority with the RDs will reinforce tighter alignment of the Bank's operational choices with institutional and country strategies, and improve the planning and execution of operational work programs.

Institutional Governance and Fiduciary Controls

- 2.21 Within the context of institutional reforms, it is critical to ensure that appropriate safeguards exist to balance the increased delegation of authority and staff empowerment. Since 2006, there has been an ongoing process to mainstream monitoring, compliance and accountability mechanisms. The major developments include: the strengthening the office of the Auditor General (OAGL) and the Internal Control Unit (ICU) to enforce investigation responsibilities, audits and controls.
- 2.22 A Whistle Blowing and Complaints Handling Policy was approved by the Board in January 2007 and an awareness campaign, addressed to staff and stakeholders at large, has been launched. This will further reinforced through fraud-related training for Bank staff and personnel of Regional Member Countries. Specific actions already taken include:
- A Website has been developed and dedicated hotline services established. Hotline attendants are trained in the handling of complaints or information relating to corruption, fraud and other misconduct.
 - Acquisition of specialized investigation software and equipments, establishment of a computer forensic laboratory and the development of Standard Operating Procedures;
 - Establishment of a secure information technology platform (stand alone system) and a Case Management System is being developed to be completed by end of August 2007;
 - Recruitment efforts are underway to fully staff the Anti-Corruption and Fraud Investigation Division by end 2007.
 - Engagement of a Technical Assistant to assist in developing intelligence/integrity database by country to serve as a tool that would facilitate the evaluation of each Regional Member Country (RMC). Such database would be used as input into the design and appraisal of new Bank-financed projects. It will also be a useful input into the design of programs for capacity building for institutions in the RMCs charged with investigating fraud and corruption.

- 2.23 The Internal Control Unit (ICU) was established in September 2005. Its activities in 2006 and 2007 essentially involve the development of integrated mechanisms and tools to rationalize processes, monitor risks and identify weaknesses prior to the reviews conducted by auditors. More than 45 key processes that have significant impacts on controls around financial reporting were documented to enable Managers identify the risks and key controls within their processes. From the review of 200 related key controls in two complexes and fifteen Divisions, standardized tools to identify and remove areas of duplications and redundancies, could be developed, thus enhancing productivity and efficiency for the affected areas. The implementation of this Integrated Internal Control Framework (IICF) into other areas of Operational Risks Management is being extended to cover the whole Bank Group starting from the 2007. ICU will also be involved in the design and documentation of controls to ensure that adequate controls accompany the ongoing decentralization exercise. These controls will be implemented during the second quarter 2007, then tested and evaluated during the last quarter 2007.
- 2.24 The Compliance Review and Mediation Unit became operational during 2006. Further to the establishment of the unit, the Independent Review Mechanism is now ready to operate, following the appointment of independent experts, which was approved by the Board on 10th April 2007.

Improved Monitoring of Reform Implementation

- 2.25 The Bank is committed to successfully executing the remaining reforms by the end of 2007. To this end, a new full time Reform Implementation Team (RIT) was appointed with effect from 1 March 2007. The RIT, which reports directly to the President, works in close consultation with Senior Management and line managers across the Bank. The RIT is mandated to enhance the implementation effort across the Bank, monitor progress impartially, and broker solutions to problems and bottlenecks. Its full-time engagement is expected to contribute to accelerated and more effective implementation.
- 2.26 As a first step, the new RIT held extensive consultations across the Complexes and with the Staff Council. An inventory of the reforms, with clear identification of responsibilities, deliverables and timelines, was drafted. This was subsequently presented to and endorsed by Senior Management.
- 2.27 Success depends on ownership and commitment across Bank Staff and Management, and on intensified efforts, understanding and engagement at every level. To help build the necessary understanding and recognition of responsibilities, particular effort is being given to ensure improved and regular communication of the reforms, progress, challenges and outcomes. Feedback from Staff is being strongly encouraged.