

Independent Evaluation of the Decentralization Strategy and Process at the African Development Bank

Summary Report for ADF-11 Mid Term Review

Background Paper

**ADF-11 Mid-Term Review
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AFRICAN DEVELOPMENT FUND

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Preface from Management

This summary report of the independent evaluation of the decentralization strategy and process at the African Development Bank was discussed by the Committee on Operations and Development Effectiveness (CODE) on July 14, 2009 and is presented for information at the ADF-11 Mid-Term Review. A comprehensive version of the report is available on request. With this Preface, Management presents its views on the evaluation's analysis and its conclusions as regard decentralization at the Bank.

General Comments

Management welcomes this independent evaluation. It provides useful insights into how decentralization can contribute to enhancing the development effectiveness of the Bank's resources. This evaluation, requested by the Bank's Boards, is a pre-requisite to moving to the second phase of the institution's decentralization efforts. As such, it is particularly timely five years after the approval in 2004 by the Bank's Boards of the first phase.

Management agrees with the general conclusion of the evaluation, calling on the Bank to consolidate its efforts to establish decentralized systems, processes and capacities in order to reap the full benefits of decentralization over the medium term. Management also broadly agrees with *Recommendation 2* (on using decentralization to better meet commitments set out in the Paris Declaration and Accra Agenda for Action) and *Recommendation 3* (on clarifying responsibilities and accountabilities for further decentralization). While fully endorsing a customized, business-driven approach to decentralization (*Recommendation 1*), Management differs from the evaluators on how best to support three distinct client segments (see discussion below). Nor does Management believe that it is feasible or desirable to establish a results framework for the Bank's decentralization process which is linked to measurable changes in the development status of RMCs (*Recommendation 4*).

Management wishes to highlight three aspects of the evaluation for further comment: i) progress to date on decentralization; ii) customizing decentralization for different client segments; and iii) placing decentralization and field offices (FOs) within a Country Team context.

Progress on Decentralization

Management agrees with the report that evaluating decentralization poses serious methodological challenges, especially when

assessing how decentralization contributes to improved effectiveness and impact on the ground. It also shares the report's conclusion that it is too early to assess the results of decentralization.

However, Management finds that the objectives and milestones adopted by the Boards in the 2004 Decentralization Strategy have been largely achieved. This contrasts with the evaluation finding that the Bank is 'behind schedule' in implementing its decentralization agenda. As with any complex institutional change challenges emerge in the course of implementation that require strategic adjustments. These have been recognized by Management and appropriate action taken. In this connection, a Presidential Working Group on Decentralization was established in 2008. Its objective was to better codify the principles guiding decentralization and the actions underway, with the aim of accelerating the process and further empowering decentralized units. The resulting Ten-Point Action Plan that it developed provides a useful framework for assessing progress in implementation (see table below). On this basis, Management finds that decentralization objectives have been largely achieved for seven of the ten areas, with partial achievement in the remaining areas requiring increased efforts.

This positive track record is further supported by the progress made on many indicators used in the 2004 Decentralization Strategy to measure the performance of FOs. On key performance indicators such as lead time to loan effectiveness, elapsed time for procurement or annual disbursement rates, the data indicate not only that Bank-wide averages have improved significantly in the past five years, but that these improvements have been greater in countries served by a FO.

While Management agrees with the evaluation report that decentralization is an unfinished business, we find that the Bank has decisively pursued the strategy adopted by the Board in 2004 and has acted within the mandate it was given. This is a factor the evaluation at times fails to fully take into account. For example,

Management is not able within its present decentralization mandate to open additional

FOs in fragile states—despite strong client demand.

Ten Point Action Plan: Objectives & Achievements to Date

Objectives		Progress to Date	
1	Clarify roles & responsibilities —Build on OpsCom Guidelines to ensure shared understanding of roles.	<ul style="list-style-type: none"> ✓Phase I of Strategy approved by Board (2004) ✓Launch independent evaluation on Bank's experience with Decentralization (2008) ✓Presidential directive on Delegation of Authority ✓OpsCom approves Decentralization guidelines. 	★★★
2	Regional Departments —Operationalize 25 FOs in countries that cover 90% of portfolio. Identify opportunities for locating additional regional capacity in the field.	<ul style="list-style-type: none"> ✓23 FOs in operation ✓nearly 90% of portfolio covered (including multinational operations) ✓Improved dialogue with client countries ✓Country program officers established in each FO ✓Progressive transfer of country economists. 	★★★
3	Sector Departments —Identify opportunities for locating sector capacities in the field	<ul style="list-style-type: none"> ✓26% of professional staff (PL) are in the field in mid-2009 ✓Customized staffing to align with country priorities ✓Dual reporting introduced for sector staff ✓Task management progressively transferred to FOs. 	★★★
4	Fiduciary Services & Disbursements —Strengthen project implementation including procurement & disbursement.	<ul style="list-style-type: none"> ✓Revised rules & procedures ✓Improved service delivery ✓Approved decentralization of fiduciary responsibilities to regional hubs ✓Enhanced accountability ✓Dedicated public financial management staff at country level. 	★★★
5	Outreach, legal, gender & safeguard services —Develop the right model for offering services to FOs.	<ul style="list-style-type: none"> ✓New field-based safeguards training ✓Strengthened safeguards, checks & balances. 	★★★
6	Human Resources —Align HR policies & practices to decentralization.	<ul style="list-style-type: none"> ✓Improved terms & conditions for FO staff ✓Local staff medical & retirement plans ✓Better incentives for field-based international staff. 	★★★
7	Budget —Increase resources & flexibility.	<ul style="list-style-type: none"> ✓Multi-year budgeting for better predictability ✓UA-based budgeting underway ✓Decentralized budgets to empower FO & enhance accountability. 	★★★
8	Technology —Facilitate seamless interaction between offices.	<ul style="list-style-type: none"> ✓Broadband Integrated telecommunication project enhances connectivity ✓FOs trained on SAP, DARMS etc. 	★★★
9	Logistics —Develop the right model for logistical support to the FOs.	<ul style="list-style-type: none"> ✓All 23 FOs are fully operational ✓Study on lease vs. buy for FO real estate ✓Enhanced management of general services in FO. 	★★★
10	Implementation Support —Institutionalize field presence coordination, monitoring & evaluation.	<ul style="list-style-type: none"> ✓Transition from representation role to empowered FOs ✓Establishment of key performance indicators for FOs. 	★★★

Customizing Decentralization

Management embraces fully the need to customize decentralization for greater effectiveness among different client segments, but does not agree with the type of customization proposed for stable ADF clients. In particular, Management does not agree with the recommendation to move toward regional hubs with National Program Offices in stable, ADF countries. These countries typically combine low implementation capacity with large and diverse portfolios and significant donor presence on the ground. They offer the greatest scope for improved portfolio performance through continuous field-based supervision, coordination with other donors and implementation support. Indeed, the Bank's experience shows that the most dramatic changes in portfolio performance in recent years have been in stable ADF countries like Tanzania, Burkina Faso and Zambia. In contrast, Bank experience with National Program Offices has not met expectations and would not be recommended for countries with medium- or large-sized portfolios, active policy dialogue and vibrant donor coordination frameworks. A final consideration is that the distinction between fragile states and other ADF states is fluid—as is the distinction between fragile states with deteriorating governance and those on an upswing—making rigid categorization unhelpful.

Decentralization in a Country Team Context

This evaluation report focuses predominantly on the role of FOs. Management acknowledges that the staffing and operationalization of FOs may be the most appropriate yardstick for assessing the *extent of decentralization*. However, FOs are less appropriate as a yardstick to assess the *effectiveness of decentralization*, in terms of the Bank's ability to use decentralization to achieve better results on the ground. To this end, the Bank put in place in 2006 a matrix management structure which established Country Teams as the responsible entities for country program management. These Country Teams combine international expertise with in-depth country knowledge and dialogue to make better decisions about country program management. Location of work is driven by country program considerations. Decision-making is done jointly by Country Team members based at the centre and in the field office. In this model, FOs cannot be held solely accountable for portfolio performance or the quality of country dialogue. Future evaluation of decentralization will need to adapt methodology to reflect this reality.

Decentralization's Objectives

Medium-Term Objectives

Management agrees with the evaluation recommendation that it is time to develop a more detailed roadmap for the next phase of decentralization, now that the evaluation of the first phase is complete. In 2008, the Presidential Working Group on Decentralization already underscored the need to develop this roadmap, and Management has engaged to complete it by end -2009. The roadmap will, *inter alia*, outline actions to be taken in the following areas:

- *A more shared understanding.* Achieving a more uniform and shared understanding of the decentralization agenda across the Bank is fundamental in securing its success. It must be increasingly seen as an agenda that engages the whole institution, rather than a specific Complex. Achieving a broader-based understanding of decentralization will require strong leadership and clear lines of accountability at the strategic and operational levels.
- *Delegation of authority.* Going forward, delegation of authority will be implemented to provide FOs (including regional hubs) with greater decision-making authority. This will include incremental targets for moving Task Managers' positions and responsibilities to FOs and regional hubs.
- *Strategically managing human resources.* It is essential that FOs attract and retain highly qualified and experienced staff. The Bank will need to improve human resource policies to better achieve this together with clear guidelines on staff mobility, staff rotation, and staff reintegration upon return from the field.
- *Addressing the costs of decentralization.* While the benefits of decentralization are spread over the medium- to long-term, the costs of the process are substantial and up front. This is why special attention needs to be paid to understanding the benefits of decentralization and to investing today for greater effectiveness in the field tomorrow.

The Role of Field Offices

Management agrees that delivering the full benefits of decentralization will require better equipping FOs with the skills, the resources and the decision-making authority to fully service client needs and support corporate objectives. Management

will staff FOs on the basis of a systematic and periodic review of the business environment and evolving client needs.

Management will seek to build local capacity over time while transferring skills so that FOs are in a position to take over the design and supervision of operations. This will include enhanced support to FOs in countries that have budget support operations or are engaged in promoting regional programs, as well as special attention to strengthening country-based knowledge centres. These initiatives typically demand greater policy engagement and more coordination and harmonization efforts than the centre can provide.

Managing Human Resources

Management highlights the importance of human resources and people management—especially as regards staff incentives and career management within sectors—in making greater decentralization a reality. Management will design strategic human resource policies aimed at fully supporting decentralization. To do this, it will pay special attention to several dimensions:

- *Skills mix*—The Bank will seek to maintain an appropriate skills mix not only in FOs but in regional hubs. At the same time, it will recognize that FOs cannot be expected to have all the expertise required to enhance the quality of all services. It is therefore important that strong and responsive strategic/technical support remain available from the centre.
- *Country Managers*—Given the qualities required of country managers, which include political acumen and sensitivity, the ability to implement the Bank's work in challenging circumstances and the capacity to manage staff in a dual reporting matrix, close attention must be paid to the leadership and management skills of the candidates appointed to these positions.
- *Piloting the decentralization of regional departments*—Management recognizes the importance of bringing regional departments closer to the countries they serve. Management will propose to pilot decentralization of regional departments to the field, especially in the context of managing regional hubs.

Delegation to Regional Hubs

Management believes that there is value in considering how regional hubs can help achieve the objectives of decentralization. Such hubs would bring sector expertise closer to clients, tailor technical support to country and regional specificities and ensure that support is aligned to sector priorities and portfolio profiles. By providing such coverage and support, regional

hubs would increase the Bank's responsiveness to clients' needs, particularly in countries with small programs and/or rapidly evolving situations on the ground.

The Way Forward

Management agrees with the report's main conclusion that decentralization should be tailored to the needs of its various clients. In order to make this goal a reality and reap the full benefits of the decentralization process, Management has committed to defining a roadmap by end-2009 that sets out the second phase of the Bank's decentralization strategy. Following its approval by the Board, the roadmap will be implemented by Management taking into account the Board's guidance.

Independent Evaluation of the Decentralization Strategy and Process at the African Development Bank

Summary Report for ADF-11 Mid Term Review

Background Paper

**ADF-11 Mid-Term Review
October 2009
Helsinki, Finland**

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**



AFRICAN DEVELOPMENT FUND

Executive Summary

i. This report summarizes key findings, conclusions and recommendations of the independent evaluation of the decentralization strategy and process at the African Development Bank, commissioned by the Bank's independent Operations Evaluation Department (OPEV). After consideration of the changing development context, the report presents findings on the relevance, effectiveness and efficiency of the Bank's decentralization efforts to date, and on how the process has been managed. Experience of decentralization activities in other agencies is briefly reviewed. A final section draws together conclusions and presents recommendations for the future.

ii. The 'Proposed Strategy for the Decentralization of the Activities of the African Development Bank Group' (hereafter 'Decentralization Strategy') was approved by the Board of the African Development Bank (AfDB) in September 2004. The key objectives of the Decentralization Strategy were *'to be closer to the client base and to participate more effectively in the countries' development efforts'*. Effective and efficient decentralization is central to the delivery of the Bank's Medium Term Strategy (MTS (2008-12)) and the Bank's drive towards delivering better development results.

iii. Although the objectives of the decentralization strategy have evolved over time, the broad rationale underpinning the AfDB's approach to decentralization has remained constant throughout the period being evaluated. Stated at its simplest, it is that: *Investment in decentralization will establish a more effective field presence. This in turn will enhance the AfDB's development effectiveness and impact, contributing to sustained and cumulative benefits in regional member countries.* However, there is no uniform understanding or agreement across AfDB of what is meant by decentralization, leading at times to confusion.

iv. By April 2009, there were 22 Field Offices (FOs) in operation against a target of 25 operational FOs; and Host Country Agreements have been signed for the remaining 3 FOs. The intention was to have FOs covering over 90% of the Bank Group's portfolio (in lending terms). By 2008, around 81% of the portfolio had been covered. However, AfDB is behind schedule in establishing a fully operational FO network. Although offices have been opened, there are critical gaps in staffing and IT set-up.

v. The coverage of RMCs served by an FO in-country is proportionally higher in countries eligible for ADF resources (over 60%) than in countries eligible for ADB resources (around 30%). There are currently FOs in-country in 5 of the 20 countries classified by the AfDB as Fragile States. A further two fragile states are covered by Regional Office operations.

vi. Field presence has resulted in improvements to important activity areas of *portfolio management*, notably in supervision and portfolio clean-up, where FOs were given responsibilities which have been well addressed. There has also been some improvement in the way the Bank conducts *dialogue with RMCs*. There have been considerable *improvements in the Bank's public profile in country, and in the Bank's role in donor coordination.*

vii. These decentralization 'outputs' have so far led to limited results in terms of outcomes with respect to a greater emphasis, through decentralization, on achieving project results; faster project operations; and improved quality of the country portfolio. While field presence has improved client satisfaction, it is too early to see changes in terms of a reduction in projects with poor outcomes or deeper (or more critical) policy dialogue. But decentralization has probably contributed to the growth in scale and net value of Bank operations in recent years.

viii. Overall, although much has been achieved, it appears that the results of the decentralization process, in terms of targets set, have been mixed. Progress in establishing the network of fully functioning Field Offices is incomplete, limiting the delivery of outputs (see Table 2, Section 4). Consequently, it is too early to expect to see much attributable progress in terms of institutional outcomes or development impact.

ix. Capital costs in setting up the FO network between 2004 and 2008 are estimated to have been around UA 7.7m, against the original budget estimate of UA 9.6m. Over the same period, expenditure on running costs is estimated at UA 51.85m. The running cost figure for 2008 of 23.33m (for 23 established but not fully geared up FOs) suggests an annual operating cost averaging over UA 1m for each FO, against forecast costs of UA 0.657m for each office. Servicing country programmes through regional office 'hubs' is estimated to be half the cost per country of running single country FOs. However, benefits are difficult to quantify, constraining assessment of cost-effectiveness.

x. A Permanent Committee for Field Offices (PECOF) was established in 2004 and charged with supervising the opening of the new FOs. Resident Representatives were expected to report directly to PECO during opening and set-up. By 2007 the activities of PECO had in practice fallen away although there is no document formally dissolving it. PECO's role was neither extended nor formally replaced in terms of a structure that could manage all aspects of the decentralization process. Coordination and accountabilities have been unclear, given a structural gap in terms of overall direction and accountability. Monitoring and reporting has been weak.

xi. The evaluation recommends that the Bank should:

- **Recommendation 1: Adjust the course of the decentralization process to address more closely the needs of different client segments:** i.e. countries which are ADB-eligible, ADF-eligible and ADF-eligible (fragile state). The FO types would have resources and delegated authority levels adjusted to reflect the characteristic business environment, client capacity and needs, and the comparative advantage of the AfDB.
- **Recommendation 2: Develop clear plans for using decentralization (as one of the instruments at its disposal) to help meet its commitments under the Paris Declaration and the Accra Agenda for Action.** There exists an obligation and an opportunity, through the decentralization process, to adapt to a more fully country-led approach with a view to stepping up aid effectiveness.
- **Recommendation 3: Establish a clear structure for management of the decentralization process, with clearly defined accountabilities.** This is required to actively manage the challenges and risks associated with the proposed changes as well as those (often unanticipated) challenges arising from the decentralization process itself.
- **Recommendation 4: Improve measurement of decentralization and strengthen learning and accountability by developing a clear results framework** for a continuing decentralization process within the framework of the MTS (2008-12). Such a framework would not be limited to AfDB activities and outputs, but would seek to link these to measurable changes in the development status of RMCs and progression of the aid effectiveness agenda.

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Abbreviations

ADB	African Development Bank
ADF	African Development Fund
AfDB	African Development Bank
AsDB	Asian Development Bank
AU	African Union
CO	Country Office
CODE	Committee of Operations and Development Effectiveness
CSP	Country Strategy Paper
DAM	Delegation of Authority Matrix
DWG	Decentralization Working Group
EDS	Enhanced Decentralization Strategy
ESW	Economic Sector Work
FDI	Foreign Direct Investment
FO	Field Office
FOA	Formal Organisational Assessment
HCA	Host Country Agreement
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Finance Institution
KPI	Key Performance Indicator
MDG	Millennium Development Goal
MfDR	Managing for Development Results
MIC	Middle Income Country
MSC	Most Significant Change technique
MTS	Medium Term Strategy
NEPAD	New Partnership for African Development
NPO	National Programme Office
OPEV	Operations Evaluation Department
PAR	Projects At Risk
PCR	Project Completion Review
PECOF	Permanent Committee of Field Offices
PIU	Project Implementation Unit
PP	Problematic Project
PPP	Potentially Problematic Project
REC	Regional Economic Commission
RM	Resident Mission
RMC	Regional Member Country
RO	Regional Office
RR	Resident Representative
TRA	Headquarters of AfDB, in Tunis
TRA	Temporary Relocation Agency
UA	Unit of Account
WB	World Bank

INDEPENDENT EVALUATION OF THE DECENTRALIZATION STRATEGY AND PROCESS AT THE AFRICAN DEVELOPMENT BANK

1. Introduction

- 1.2 This report summarizes key findings, conclusions and recommendations of the independent evaluation of the decentralization strategy and process at the African Development Bank, commissioned by the Bank's independent Operations Evaluation Department (OPEV)¹. After consideration of the changing development context, the report presents findings on the relevance, effectiveness and efficiency of the Bank's decentralization efforts to date, and on how the process has been managed. Experience of decentralization activities in other agencies is briefly reviewed. A final section draws together conclusions and presents recommendations for the future.
- 1.3 **The Decentralization Strategy.** The 'Proposed Strategy for the Decentralization of the Activities of the African Development Bank Group' (hereafter 'Decentralization Strategy') was approved by the Board of the African Development Bank (AfDB) in September 2004. The key objectives of the Decentralization Strategy were *'to be closer to the client base and to participate more effectively in the countries' development efforts'*.
- 1.4 The Bank's decentralization objectives have evolved over time, in response to institutional reforms within the Bank and changes in the wider development context. Effective and efficient decentralization is central to the delivery of the Bank's Medium Term Strategy (MTS (2008-12)) and the Bank's drive towards delivering better development results. The Bank's decentralization objectives are set out more fully in Section 3 on relevance.
- 1.5 **The evaluation.** The overall aim of the evaluation was to inform and strengthen the AfDB's approach to decentralization, through systematic assessment of the decentralization strategy and early experience of implementation, reviewing how far the process has progressed against plan and recording the results to date. The core evaluation questions relate to relevance, effectiveness, efficiency and management of the process. Conclusions have been drawn on the extent to which the decentralization process on its current track looks set to contribute towards greater development impact of AfDB resources.
- 1.6 The evaluation used a mixed methods approach, combining formal organizational analysis of the decentralization process with an appreciation of staff experiences and a systematic survey of internal and external stakeholder perceptions. Desk reviews were undertaken and visits made to Field Offices² and to the Bank's central offices located at the Temporary Relocation Agency (TRA) in Tunis. To provide counterfactual evidence, one country without a Field Office was also visited³. The country sample covered the range of operating models for 'Field Offices' (FO) that the AfDB currently deploys in its lending operations, comprising the Country Office (CO), serving a single country; the Regional Office (RO), serving as the field office for the country of location as well as for other countries in the sub-region; and National Programme Office (NPO), typically a small office with one or two staff liaising with the national authorities.
- 1.7 Rigorous monitoring and reporting mechanisms on decentralization are lacking. The poor quality and coverage of hard data held within the AfDB Monitoring Systems hampered the work of the evaluation. The relative immaturity of decentralization within the AfDB also limited the enquiry. Given data limitations, particularly at higher levels of the results chain, the evaluation could only draw inferences regarding causes and consequences, rather than establishing clear, measurable attribution. Nevertheless, on the basis of available evidence, the evaluation was able to arrive at significant findings and conclusions, on which to base

¹ The full evaluation report and Management Response is available at the Operations Evaluation page of the AfDB website: <http://www.afdb.org/en/knowledge/operations-evaluation/>. This Summary Report has been prepared by OPEV as a contribution to the Mid Term Review of ADF-11.

² Burkina Faso, Egypt, Ethiopia, Nigeria, Senegal, Sierra Leone, Tanzania.

³ Liberia.

recommendations for action to rationalize and strengthen the Bank's push towards greater decentralization and more effective deployment of the Bank's resources.

2. Context

- 2.1 **Operating context.** Decentralization has been introduced at AfDB within a dynamic and varied regional context. Since around 2000, there has been an increasing focus within the international community on aid effectiveness, reinforced by the commitments made under the Paris Declaration (2004) and the Accra Agenda for Action (2008), with a particular focus on 'managing for development results' (MfDR) and strong emphasis on country ownership and country-led development. At the same time, the number and diversity of development actors has increased, with many new donors and increasing private sector engagement. Growing attention is given to regional integration, with the African Union, the New Partnership for African Development (NEPAD) and the Regional Economic Communities (RECs) increasing their influence. The changing development context presents an array of challenges for the Bank to address at national, sub-regional and regional levels.
- 2.2 **Corporate Goals.** The Bank has articulated its response through corporate strategic plans which have accorded a key role to decentralization and the development of stronger partnerships with other multilateral, bilateral and regional organizations. Emphasis was given to decentralization within a wide ranging reform agenda under the first Strategic Plan (2003-2007), which included efforts to strengthen business processes and improve portfolio quality and performance. The Medium Term Strategy (2008-2012) set the Bank the goal of becoming '*a preferred partner in Africa, providing high impact, well-focused development assistance and solutions*'. Improving responsiveness to and increasing engagement in client countries is key, to be achieved through measures including effective decentralization and reduced transaction costs.
- 2.3 **Benchmarking.** In line with the country-led approach, many development agencies have been decentralizing their operations to move closer to client countries and to develop harmonized approaches. There has been no common model, as each agency has a unique set of internal and external issues to address. However, some common themes do emerge from this growing body of experience (see below, Section 7).

3. Relevance

- 3.1 **Definitions of 'Decentralization'.** The term 'decentralization' can have varied interpretations. As a generic concept it reflects various forms of structural arrangements in organizations. As a process, decentralization involves the transfer of authority and power to plan, make decisions and manage resources, from higher to lower levels of the organizational hierarchy, in order to facilitate efficient and effective service delivery⁴.
- 3.2 Different modes of decentralization can be distinguished (see Box 1 below).⁵ The early stages of decentralization within the AfDB and the 2004 Decentralization Strategy reflect elements of 'Delegation' and 'Deconcentration' modes. In 2004, decentralization was seen as the opening of FOs to establish a country presence. FOs were effectively additions to the existing management structure. In 2006, set within the package of wider institutional reforms, decentralization came to mean delegation of authority within a country focused perspective. Delegating increasing responsibility and authority to lower levels within the organization linked FOs in more coherently as an integral element of the management structure. Critically, however, there is still no uniform understanding or agreement across the AfDB of what decentralization is or can be. The term is used loosely, without sufficient clarity on what is meant, at times leading to confusion and staff working at cross purposes.

⁴ Smith (1985:1); Rondinelli (1981:137); Kiggundu (2000:89).

⁵ Hicks (1961), Mintzberg (1979) and Rondinelli (1983).

Box 1: Different Modes of Decentralization

- **Delegation** – assignment of specific decision making authority, i.e. the transfer of managerial responsibility for specifically defined functions outside the normal bureaucratic structure;
- **Divisionalization** – the division of the organization into more or less autonomous strategic business units, as the business diversifies into new business, product or geographical areas
- **Deconcentration** – spatial relocation of decision making, i.e. the transfer of some administrative responsibility or authority to lower levels *within* the normal bureaucratic structure; and
- **Devolution** – transfer of responsibility for governing, understood more broadly, i.e. the creation or strengthening, financially or legally, of sub-national units of governments, whose activities are substantially *outside* the direct control of central government.

- 3.3 **The Decentralization Strategy: Evolving Objectives.** The field presence pilot programme, approved in 1999, involved three National Offices and one Regional Office⁶ and a limited mandate on supporting project implementation⁷. In 2002, positive assessment of the pilot experience led to preparation of the 2004 Decentralization Strategy, which set out the establishment of a network of FOs in RMCs with the mandate of FOs extended to include country dialogue.
- 3.4 The key objectives of the Decentralization Strategy were *'to be closer to the client base and to more effectively participate in the countries' development efforts'*. To achieve this, management proposed and the Board approved a gradual and flexible approach to decentralization, which would establish new offices where the institution's strategic interests and country needs coincided, at a pace consistent with the AfDB's capacity to set up such offices effectively. The target was for a total of 25 Field Offices (20 Country Offices and 5 Regional Offices) to be open and operational by the end of 2006. The aim was progressively to delegate real authority to the field: tailoring the level of delegation to the number and calibre of staff available at each office and with an initial emphasis on project execution (loan effectiveness, procurement and disbursements activities) and in a second stage on strategy preparation, portfolio development and selective project supervision.
- 3.5 The stated advantages of this approach were that the country offices would move beyond a traditional representative function and step up efforts to strengthen strategic partnerships and better manage the project cycle, with positive effects on client satisfaction and the quality of the portfolio.
- 3.6 In 2006, further proposals for an 'Enhanced Decentralization Strategy: Strengthening Country Focus and Client Responsiveness through a Tailored Approach' (hereafter 'EDS') was presented by Management to the Board for consideration. The proposals were discussed, but not formally approved.
- 3.7 **Relevance to Corporate Goals.** Within the AfDB Medium Term Strategy (2008-2012), effective decentralization is seen as a cornerstone for programme delivery. To this end, the Bank is planning to deepen and widen decentralization, ensuring operational integration of field and central offices; and to further adjust staffing to meet country specific circumstances, giving lead responsibility for key tasks where it makes most sense, including transfer of lead roles to field-based officers. The recently approved Regional Integration Strategy foresees the FOs playing an important role in helping to programme, coordinate and monitor implementation of regional integration operations, with plans to strengthen capacity through placement of Regional Integration experts in the relevant FOs.
- 3.8 The important shifts in emphasis within the MTS (2008-12) include a stronger sector focus on infrastructure, on regional integration, and on knowledge services, as well as deeper engagement in MICs and fragile states. This reflects a strong statement of the Bank's perceived comparative advantage. However, there has been no formal re-assessment of what

⁶ Nigeria, Gabon, Ethiopia, and Egypt

⁷ This reflected a tentative re-engagement with decentralization given the AfDBs earlier mixed experience with field offices in the 1980s–mid 1990s. During that time offices were seen as a means to improve portfolio performance. This was later reinforced by a security dimension, spreading the risks during the troubled times in Côte d'Ivoire. Following some apprehension over governance the offices were closed and a period of centralization followed under a reform program led by the incoming President.

this means for the planning, financing, delivery and management of decentralization activities, in order to focus support towards the roles that the AfDB is seeking to fill at national, sub-regional and regional levels⁸.

3.9 **Complementarity with Other Reforms.** Decentralization plans were designed to complement and to leverage other reforms in the AfDB, including a range of business process reforms and improvements to project cycle and portfolio management. Accelerated decentralization is one of the three pillars of the AfDB's (2008) Action Plan for Managing for Development Results (MfDR)⁹. '*Accelerating decentralization for better results on the ground*' and '*instilling a results oriented supervision culture*' are seen as key thrusts towards increased agency effectiveness.

3.10 **Conclusions.** The preceding discussion highlights the rising importance of country-led development and the Bank's commitment to respond to the agendas of regional member countries. It is clear that decentralization is an integral element of the Bank's Medium Term Strategy, with particular relevance to delivering better development results 'on the ground'. The key questions are therefore not whether to proceed with decentralization, but how the process should be taken forward, how far it should go, and how closely integrated it should be with other ongoing reforms.

3.11 While the detail has evolved, the broad theory of change or rationale underpinning the AfDB's approach to decentralization has remained constant throughout the period being evaluated. Stated at its simplest, it is that:

Investment in decentralization will establish a more effective field presence. This in turn will enhance the AfDB's development effectiveness and impact, contributing to sustained and cumulative benefits in regional member countries.

3.12 Yet there is no uniform understanding or agreement across the AfDB of what is meant by decentralization, leading at times to confusion (see Box 2 below). Moreover, the cause and effect steps in the results chain to achieve better development results through decentralization have not been fully or precisely articulated. In particular, it is not clear how intermediate (institutional) outcomes will translate into longer term development outcomes. Attention needs to be given to this, and to sharpening the focus on linking decentralization to the specific goals of the Bank's Medium Term Strategy.

Box 2: Some FO Staff Views on the Decentralization Strategy and Process

- '*There has been no vision articulated for decentralization. We do not know where we are going.*'
- '*The Bank is playing it by ear.*'
- '*Since mid-2008 we have witnessed a recentralization process.*'
- '*Currently there are many at HQ who are minimizing the interest and importance of the FOs and their staff and their added value to the results of the Bank's actions.*'
- '*The benefits of decentralization are real. However the full benefits have not been achieved yet*'
- '*We should move forward with concrete decentralization of functions that impact the business process.*'
- '*The weaker countries that need Bank's presence more do not have Field Offices yet...(FOs) are focused on strong performers.*'
- '*The old model of missions flying in from HQ is over.*'

Source: Perception Survey

⁸ The Decentralization Working Group produced A Ten Point Action Plan for a More Effective Field Presence (June 2008) which covered these topics and proposed actions to address perceived problems and needs, but did not explicitly align its proposals with the strategic direction sets out in the MTS.

⁹ The other two pillars are: promoting international partnerships on results and building country capacity to manage for results.

4. Effectiveness

- 4.1 **Overview.** How far are the objectives of the Decentralization Strategy being realized? This section considers evidence at different levels within the 'logic model' of the Decentralization Strategy, linking inputs and costs with activities and outputs, and then outcomes and impact (see Table 1 below). It is important to note at the outset that achievement of outcomes and impact can only be realized in the medium to long term. It is too early to look for significant impact at this relatively early stage in the decentralization process.

Table 1: Logic Model Representation of the Decentralization Strategy

	<i>Indicators/targets</i>
Goal:	Agency Effectiveness – enhanced development impact of Bank resources
Impact: <i>(longer term)</i>	Adoption of sound economic policies by RMCs
	Increased scale, value and quality of Bank Group operations
Outcomes: <i>(medium term)</i>	Higher portfolio quality: Improved execution of projects/programmes
	Improved client satisfaction: Reduction in projects with poor outcomes
	Increased lending volume; public sector and private sector
Purpose:	'Strengthening country focus and client responsiveness' (2006 EDS).
Outputs:	Quality assured project processes
	Greater understanding of the country's particular needs and circumstances
	Improved public profile of the Bank in-country
	Improved donor coordination
	Closer partnerships with regional economic entities
Inputs/Activities: <i>(major)</i>	Establishment of 16 new FOs; two phases, end 2006 (total to 23), extended to 25
	Investment per FO (established) of UA 420,000 for set-up and UA 660,000 for annual operations
	Tailored staff complement of international (incl. TRA transfers) and local staff
	Increased delegated authority when FO fully operational – IT set up certified

- 4.2 **Inputs: Offices and Staffing.** Although much progress has been made, the AfDB is behind schedule in establishing a fully operational FO network. There are critical gaps in staffing, establishment of IT systems, and delegation of authority. Delays in installing inputs will impede the timely achievement of benefits.
- 4.3 *Number of offices.* The Decentralization Strategy set out a course for the establishment and operation by the end of 2006 of a total of 25 FOs (20 COs and 5 ROs) including offices established under the earlier pilot. By April 2009 there were 22 FOs operating (17 COs and 5 ROs). This is set to increase to the target 24-25 offices by the end of 2009¹⁰. A higher proportion of ADF-eligible countries (over 60%) have in-country FOs than do countries eligible for ADB resources (around 30%). Only 5 of the 20 countries classified as Fragile States¹¹ have in-country FOs, and two others are covered by Regional Office operations. Coverage of Fragile States is relatively low, despite the potentially high contribution a substantial field presence can make where national capacity is weak.
- 4.4 *Portfolio covered by FOs.* The plan in 2004 was to have 'approximately 90%' of the Bank Group's portfolio covered by the operations of FOs. By 2008, FOs directly covered 67% of the portfolio, with a further 3% in RMCs served by a Regional Office. The programmed opening of FOs in Angola, Algeria and South Africa in 2009 will extend this further. Much of the 10% of

¹⁰ There have been delays in the opening of the Angolan and Algerian FOs: Host Country Agreements (HCAs) have only been recently signed. Following the relocation of the AfDB to the Temporary Relocation Agency (TRA) in Tunis activities to open the Tunisia Country Office were put on hold. In November 2008 the Board approved the establishment of a further FO in South Africa: the HCA was signed in June 2009.

¹¹ Defined as eligible for the Fragile State Facility

the portfolio designated as multi-national projects is active in RMCs covered by the FO network. Portfolio coverage is therefore approaching the target set.

- 4.5 *Staffing.* The number of posts created in FOs is below the targeted number, and even the posts created have not been fully staffed (see Annex II). Only five of the 22 currently operational FOs have a complete staff complement. At the beginning of 2009, 328 field office posts were filled, while 810 staff were in post in the operations complexes at headquarters. Only 10% of internationally hired professional staff are in FOs, compared to the ADF-11 internal reform target of 15%. Recent actions seem unlikely to rectify this, since of the 119 new posts authorized in 2009¹², only 20 were designated 'Field Office New Positions'. At the beginning of 2009, 81 of the total of 409 authorized posts in field offices were vacant. The vacancy rate is 26% (31 of 119) for local professional staff, and 20% (15 of 75) for international professional staff. The MTS includes a commitment to locate 31% of AfDB professional staff in the field by 2012. This will require not only transfers from Tunis, but also recruitment of local professional staff by the FOs.
- 4.6 The skills mix of FOs is not tightly related to the operational goals of decentralization. As of early 2008, seven of the opened FOs¹³ did not have a post for a disbursement officer, and of the 23 disbursement posts authorized; only 17 were filled. Similarly, four FOs lacked a procurement officer post, and of 34 procurement posts authorized, only 24 were filled. A recruitment process for seven Regional Procurement/ Financial Management Coordinators is currently underway as part of a new Procurement Plan which will place experienced procurement officers in a number of 'hub' locations. There were only 6 Sector Experts deployed to FOs; this number is set to increase to 21.
- 4.7 Although the staff composition of each office is supposed to be customized to the needs and size of the country programme, data from the Bank's human resources department shows that the pattern is in fact quite uniform, consisting of about 10 local general support staff, about 4 local professionals and about 4 international professionals.
- 4.8 *ICT infrastructure.* While most FOs have been equipped with VSAT¹⁴ connections, only 11 had been upgraded to VPN¹⁵ connections by the beginning of 2009, although the rollout is in progress. To date there has been no graduation of fully operational FOs (i.e. certified as having the commensurate ICT infrastructure) to a higher level of delegated authority. Some small improvements in ICT have provided useful quick wins to FO operations and responsiveness. Further work is required (and is planned for 2009) to upgrade ICT arrangements. To make more effective use of FO staff, it will be critical to increase levels of delegated authority as quickly as the technology allows.
- 4.9 **Implementation: Activities and Outputs.** Field presence has resulted in an improvement to important activity areas of *portfolio management*. In some areas (project supervision and follow-up, and portfolio clean-up) this development is regarded as significant given the low 'base' position from which the Bank was starting. These are areas where responsibility was given to FOs and, significantly, it appears that they are rising to the challenge.
- 4.10 Field presence has also made a small marginal improvement to the way in which the Bank conducts *dialogue with RMCs*. Overall, however, evidence from the evaluation field visits and perception surveys indicates that the way in which the AfDB conducts its business has remained relatively unchanged, with institutional reforms yet to work through to the point where they significantly impact on staff behaviour.

¹² Source: 'Budgeted Positions 2009'

¹³ i.e. excluding Angola and Algeria

¹⁴ VSAT (Very Small Aperture Terminal) is a satellite communications system serving home and business users.

¹⁵ A virtual private network (VPN) is a computer network in which some of the links are carried by larger networks (such as the Internet), as opposed to running across a single private network.

- 4.11 Targeted primary outputs (*quality assured project processes* and *greater understanding of a country's particular needs and circumstances*) have as yet been only partly achieved. Better progress is seen with secondary outputs, relating to *AfDB's public profile* and *AfDB's role in donor coordination*¹⁶. Table 2 (below) summarizes the results.

Table 2: Summary of Achievements of Decentralization Strategy: Outputs

Outputs of the Decentralization Strategy	Assessment: Extent to which output achieved	
Primary Focus		
Quality assured project processes	Partly achieved	★ ★
Greater (shared) understanding of a country's particular needs and circumstances	Partly achieved	★ ★
Secondary Focus		
Improved public profile of the AfDB in the country	Largely achieved	★ ★ ★
Improved donor coordination	Largely achieved	★ ★ ★
Closer partnership with regional economic entities	Partly achieved	★ ★

- 4.12 **Implementation: Outcomes.** As noted above, achievements of outcomes can only be expected over the medium term. Predictably, therefore, decentralization has not yet fulfilled its potential to deliver on the AfDB's specific aim of *a greater emphasis on achieving project results*. The AfDB's focus on development results has existed since 2002 and is now being increasingly hard-wired into the organization. The links with decentralization have been recognized, but not yet built into business processes.
- 4.13 Regarding *faster project operations*, the AfDB has not yet achieved the desired level of improvements. Whilst the trend is positive (e.g. speed of loan effectiveness) the pace of change is constrained by the conflicting views and forces within the Bank on how to take decentralization forward, particularly with regard to delegated authority and the operation of Country Teams.
- 4.14 Regarding the *improved quality of the country portfolio*, the AfDB is moving in a positive direction but the pace and coherence of approach is less than is needed to achieve the desired step-change in the quality of the country portfolio. Decentralization has not yet made sufficient progress to influence this. Decentralization seems so far to have had little effect in sharpening the relevance of AfDB assistance to country needs with, in practice, only a minimal role assigned to the FO in shaping the size and nature of the portfolio.
- 4.15 Although field presence is proving important in *improving client satisfaction* and strengthening the relationship with the RMC, it is too early to see changes in this relationship, or a reduction in projects with poor outcomes. There is so far little evidence of deeper or more critical policy dialogue.
- 4.16 **Impact Pathway.** Decentralization is probably an essential factor in meeting the AfDB's broad aim of strengthening and accelerating the AfDB Group's responsiveness to client countries' priorities and needs. It is too early to expect clear evidence of the current model of decentralization (together with wider Bank institutional reforms) leading to an enhanced agency contribution to RMC development outcomes. However, decentralization has been a positive factor in the growth in scale and net value of Bank operations achieved in recent years.

¹⁶ Progress on the last point is confirmed by recent reports on AfDB's field presence by members of the Multilateral Organization Performance Assessment Network (MOPAN), a network of like-minded bilateral donor agencies that jointly conducts an annual perception survey in developing countries of multilateral partnership performance (MOPAN, 2007).

- 4.17 The evaluation team also found pointers towards a further aspect of the value added by in-country presence. As one respondent commented; *'after FOs have been set up, the countries start to understand the role of the AfDB... indeed this process, has one way or another, enabled the integration of the AfDB into African countries, which have started to see the importance of the AfDB in terms of developing our continent'*. Strengthening the unique position of the AfDB, this broad and indirect effect may prove to have a valuable and cumulative influence on improving development outcomes and impact.
- 4.18 **Conclusions.** Overall, it appears that while much has been achieved, the results of the decentralization process, in terms of targets set, have been mixed. Progress in establishing the network of fully functioning Field Offices is approaching the target set but remains incomplete, limiting the delivery of outputs (see Table 2 above). Consequently, it is too early to expect to see much attributable progress in terms of institutional outcomes or development impact.
- 4.19 **Counterfactual evidence.** Given the pervasiveness of the Decentralization Strategy across the AfDB's operations¹⁷, construction and testing of a formal, comprehensive counter-factual was not possible¹⁸. However, Liberia is an example of a country where the AfDB has only recently (from 2006) started up operations and conducted its business with no in-country presence, in contrast to the other countries visited by the evaluation team¹⁹. The Bank so far has very low visibility in Liberia, and limited field presence has constrained its influence and leverage. AfDB stakeholders have only limited understanding of the Bank's objectives works and how it works. There has been poor communication and some miscommunication with the Bank. Where the Bank depends on other donors with an in-country presence, there is increased risk related to sharing of responsibility and accountability.
- 4.20 The overall sense is that this arrangement, operating in a challenging environment, has been relatively ineffective when compared to countries with a more substantial field presence. It seems clear from this snapshot that field presence is important in establishing the Bank's profile in-country, in facilitating communication, and in reducing risk.

5. Efficiency

- 5.1 **Assessing Costs.** The assessment of costs presented here is based on the budget and expenditure information held by management for the period 2004-08. The evaluation considers: (i) the set-up capital costs of the FO network against expectations, and (ii) the costs and savings of decentralizing (including changes in operating costs at FOs and in Tunis through changing staffing patterns and reducing back office functions costs through delegation etc). However, the assessment was hampered by the fact that actual budget utilization is not systematically monitored, aggregated and reported ex-post. Despite some gaps in the figures, the headline findings and conclusions, based on careful calculations, are considered robust. All financial figures are given in Units of Account (UA).
- 5.2 **Capital costs.** The total resources invested in the set-up of the FO network in the five years from 2004 to 2008 are calculated to have been UA 7.76m; this includes UA 2.59m for ICT set-up²⁰. Assuming that the bulk of the set-up costs incurred relates to the establishment of the 16 new FOs targeted in 2004, the average set up (initial investments) cost per office is UA 0.485m. This is only slightly higher than the average figure of UA 0.418m originally specified within the budget forecast for the Decentralization Strategy and re-affirmed in the EDS. The original budget estimate for the set-up of the FO network was UA 9.6m.

¹⁷ Of the 47 RMCs currently borrowing from the AfDB, 13 are served by non-FO arrangements (of which 2 will complete the opening of FOs in 2009).

¹⁸ A clear 'before and after' comparison was not possible, given the gradual adoption of the decentralization approach from 1999. A 'with/without' comparison is also difficult, since decentralization involves the entire Bank, and is not limited to country or regional operations.

¹⁹ The Field Office in Sierra Leone has a limited supporting role in Liberia.

²⁰ Some costs such as initial training of FO staff are not reported and have not been included in this estimate.

- 5.3 However, expenditure of UA 7.76m represents a significant underspend against the sums budgeted, which totaled UA 13.71m over the five year period (this figure aggregates the annual budget figures over the period).
- 5.4 Given the prevailing deployment gaps within the 23 FOs, the average capital cost of setting up an FO is likely to increase to exceed UA 0.5m (approximately 20% over the original estimate). This assumes that current expenditure on ICT installation equals 70% of the final ICT set up cost.
- 5.5 **Running costs.** Over the five year period (2004-08), the total expenditure on FO network running costs has been UA 51.85m. This figure relates to all costs incurred directly by the FO (i.e. administration costs). Any costs related to country operations through centrally supplied services are not taken into account. Central Departments in Tunis maintain a general operating budget with no line items for FOs. Consequently, as the costs of decentralization are not disaggregated, it is impossible to see the full picture. Expenditure of UA 51.85m compares to a budgeted UA 69.44m (based on an aggregation of the annual budget figures over the five year period).
- 5.6 The 2004 Decentralization Strategy estimated an average annual operating cost for each office of UA 0.657m. The administration cost figure for 2008 of UA 23.33m (corresponding to 23 established but not yet fully geared FOs) suggests a true annual operating cost of over UA 1m for each FO. This is likely to be increased further by costs associated with a fully geared FO operation. A conservative assumption is that current expenditure on staff equals 80% of the final staff element of FO running costs.
- 5.7 Servicing country programme needs through a Regional Office is cheaper. A rough analysis of available cost information suggests that the annual administrative cost to the AfDB of a country programme serviced by an FO compared to a one serviced by a Regional Office is approximately double.
- 5.8 The original global budget for one operating year of the FO network was UA 15m. Given the analysis presented above, the final cost of a fully operational FO network can be expected to reach an additional 70%-100% over the original estimate.
- 5.9 The evaluation team found no reports of any cost savings arising within the Tunis TRA following establishment of the FO network. Central Departments have maintained the same travel budgets (felt to be commensurate with a growing overall portfolio) and FO staff still travel to Tunis. It was expected that 'considerable savings' from reduced travel costs across the central departments would follow from FOs receiving a higher level of delegated authority²¹. This graduation of FOs has not happened, while the portfolio value has increased.
- 5.10 **Cost Effectiveness.** Cost effectiveness is hard to assess. The benefits, both in the immediate and longer term, are difficult to quantify given that the decentralization model set out in the 2004 Strategy has not yet been fully implemented. Nevertheless, comparing the decentralization outputs delivered to date with the expenditure on decentralization inevitably raises some concerns over cost-effectiveness. There have been some areas of inefficiency (e.g. weak forward planning on FO office accommodation, incurring avoidable additional costs). But the more significant issue has been the failure to get the FOs fully geared more quickly (i.e. with the required infrastructure, human resources and delegated authority). This has meant that the potential of early gains through a decentralized approach has not been fully realized, as indicated in the analysis in Section 4 on effectiveness. Given relatively slow progress in fully gearing the FO network, the AfDB is not yet obtaining full value from the capability in which it is investing.
- 5.11 **Benchmarking.** In many similar organizations, decentralization involving the establishment of field offices has generally been associated with a general increase in overall running costs. Efficiency gains within Headquarters have not been automatic and required deliberate action. Where decentralization procedures were implemented correctly, increased organizational output and performance were associated with increased costs. Realizing the full benefits of decentralization is likely to require substantial incremental budget outlays. One measure

²¹ Highlighted in the EDS costing assumptions which matched the original 2004 assumptions.

taken by the Canadian International Development Agency (CIDA) after it had embarked on a major decentralization of staff in the 1980s, and concerned among other issues with rising costs, was to restrict field presence to a limited number of countries.

- 5.12 **Outlook.** It is plausible to suppose that some of the early gains arising through decentralization might have been achieved more cost-effectively through other means, without the considerable expense of establishing and operating the network of 25 FOs. Options for consideration could have included more delegated authority within existing or more streamlined management structures; outsourcing of selected support functions; using internal teams to troubleshoot poorly performing portfolios and/or on-site temporary teams to fast-track programme clean-up or push forward development in difficult environments; and adopting better harmonized working practices with other agencies, including sharing of in-country resources. It is not apparent that such options were seriously considered or costed as alternatives to the Bank's current decentralization model.
- 5.13 Field presence is changing the nature of the relationship between the AfDB and the RMCs. There is enough evidence to suggest that, with all the elements in place, the current configuration of FOs can translate into valuable improvements in portfolio quality and development outcomes as well as contributing to the growth of AfDB lending.
- 5.14 **Conclusions.** AfDB's business goals of making a bigger and stronger contribution to sustainable development in the region requires effective relationship management. This in turn involves some form of effective decentralized field presence, serviced and supported by central departments. This perspective is reinforced by the commitments of the Paris Declaration and Accra Agenda for Action, and by stakeholder expectations regarding country-led development. The evaluation has also noted the limitations of efforts to establish a development programme in Liberia without an in-country field presence.
- 5.15 But from the point of view of cost-effectiveness, and building on the investments already made in decentralization, the question is: what approach to field presence will give optimal value for money? Under what conditions will investment in a full in-country FO be justified through predicted immediate and longer term significant gains? Building on the investments already made in the decentralization process, consideration could be given to adapting the existing FO formula in ways that may provide a more optimal set of costs and benefits. These issues and a range of options are explored further in section 8.

6. Managing Change

- 6.1 **Managing the Decentralization Process.** A Permanent Committee for Field Offices (PECOF) was established in 2004 under a Presidential Directive and charged with supervising the opening of the new FOs. Resident Representatives were expected to report directly to PECO during opening and set-up. PECO successfully initiated delivery of the new decentralization strategy. But by 2007, the activities of PECO had in practice fallen away, although there is no document formally dissolving it. PECO's role was neither extended nor formally replaced in terms of a structure that could manage the decentralization process in the round (i.e. the role of FOs and the delegation of authority within the organization overall).
- 6.2 In 2006, the Task Force on Institutional Reforms, whilst calling for PECO to be the focal entity responsible for FO operationalization, also refers to the strengthening of links of FOs to the operations complexes. To a certain extent this has happened, but in an informal manner. This has left a managerial and accountability gap around decentralization.
- 6.3 The Decentralization Working Group (DWG) was established in 2008 as part of a wider set of *ad hoc* reform initiatives. Recognizing the need for improved coordination on operational matters, the DWG proposed the revamping of PECO and the preparation of new Terms of Reference in its '10 Point Action Plan for Decentralization'. However, this has not been followed up, and the mandate, status, membership and authority of PECO or a similar body to replace it requires clarification if it is to play an effective role in managing the decentralization process.

- 6.4 Decentralization by its nature involves not only the operations departments but also the complexes responsible for finance and corporate services. The EDS proposed that the drive for the roll out of precise staffing requirements for decentralization would come from the Regional Departments, but this neglects the role of the corporate services and finance complexes which have critical roles to play. However, there has been a lack of clear leadership at the strategic and operational levels to bring these together. The President of the AfDB has demonstrated strong ownership and commitment to decentralization and has communicated this commitment in various ways. However, in the absence of an effective coordinating body, there is a structural gap in terms of overall direction and accountability. Staff interviewed in the field and in Tunis were unanimous that there was a vacuum where there should have been a strong person or team with the mandate to drive the agenda and lay out clearly the 'how, who, where and how much'.
- 6.5 **Measuring the Change.** In 2003, a results measurement framework was introduced for the ADF. Initial efforts to take this forward proved complex and unwieldy and results measurement was not effectively mainstreamed into Bank operations. A review in February 2008 identified three areas of the Bank operation seen as critical for a stronger results focus including '*more effective and thorough decentralization*'²². A set of institutional internal reform indicators for ADF-11 were identified to allow management and shareholders to monitor progress in these areas.
- 6.6 In this context, monitoring of the implementation of the Decentralization Strategy and its effects has been patchy and poorly integrated, with minimal follow through on an initial set of indicators. As a result, monitoring and management of the process has been weak. Since 2004, various internal review documents have been produced, but all (including the present evaluation) have been limited by the availability of robust data and the absence of an institutional structure within which to collate, analyse and feedback information consistently and routinely so that effective strategic direction could be given by management.
- 6.7 There has been much informal sharing of experience on decentralization in recent years, but this has been largely on an *ad hoc* basis. A strong, systematic learning culture on decentralization across the AfDB has yet to emerge. To date the decentralization process can be characterized as a series of multiple ongoing experiments. For example, decisions have been taken to appoint a task manager from within the FO, and to let the FO lead supervision missions: important steps in the delegation of power from the centre to the FOs. These decisions were based on local assessments of needs and capacities, heavily influenced by the experience of the FOs and central departments of working with each other. Monitoring these many small experiments, to work out where and why they are working, could be an important learning resource for the AfDB in charting its course on decentralization. But a mechanism is needed to monitor, analyze and share information about such instances of innovation and good practice.
- 6.8 **Accountability, Control and Delegation.** Cascading of objectives and expectations regarding results, from AfDB strategic goals down to FO operational targets, has been ineffective. This has led to incomplete measures of performance and weak accountabilities. Corporate expectations regarding the role of FOs in delivery have not been consistently articulated to staff and FOs with sufficient clarity by AfDB management. Management and staff across the organization are responding to decentralization and the evolving mandate very differently. There are different perceptions of what it means, different patterns of engagement, and varying degrees of commitment and openness to change.
- 6.9 The role of the Resident Representative was defined in general terms at the outset to ensure common standards and practices but with enough flexibility to allow adjustment to local conditions. This has provided considerable space for local interpretation, particularly by Resident Representatives, producing unevenness across the FO network. In 2006, there was a proposal to transform the position of Resident Representative into the executive role of Country Manager. This has not been formalized, although a recent update note on the status of decentralization from management uses this term. Ambiguity remains over who manages

²² The other two areas are: an increased capacity to harmonise in line with Paris Declaration goals, and more systematic managerial-level engagement.

and who is accountable. Responsibilities for the delivery of the AfDB assistance to the RMC are unclear, despite promulgation of a Delegation of Authority Matrix (DAM) in 2008.

- 6.10 The matrix structure was introduced in 2006 with the clear intention of strengthening the AfDB's country focus: virtual Country Teams became, thereafter, the key operating unit. However, as with decentralization, it seems that the introduction of new practices was not systematically managed as a change process, and insufficient attention was paid to providing information and securing commitment from all quarters. The result is that the matrix is still perceived to be confusing. The dual reporting system for technical staff in the FOs introduced to address some of the issues has not yet helped. While the Delegation of Authority Matrix has clarified some reporting lines, it has not brought the necessary overall clarity. There is a widely shared perception that Senior Management, Country Teams, and Resident Representatives are not always working together constructively and efficiently.
- 6.11 **Coordinating Decentralization and other Reforms.** Implementation of the Decentralization Strategy has been undertaken during a period of intensifying reform and change within the AfDB. While the conceptualization of the decentralization process and of its fit with wider institutional reforms was good at the outset and the interdependencies were well appreciated, there has been limited attention to linking decentralization issues with wider reforms as these have unfolded. Yet securing the benefits arising from decentralization depends on maintaining (and strengthening) a supportive institutional environment. The strongest interplay between decentralization and wider AfDB reforms has been evident in the areas of human resource management, in particular helping integrate locally recruited staff. In contrast, there has been a lack of well-coordinated planning for equipping FOs with adequate IT systems.

7. Benchmarking

- 7.1 The issues confronted by the AfDB in delivering its Decentralization Strategy are similar to those experienced by other comparable agencies. These institutions found that decentralization was associated with increased costs; efficiency gains were not automatic; decentralization was not recognized (nor managed) as a key element of a wider change process; and there was weak monitoring of the process and results of decentralization.
- 7.2 The evaluation's overall finding that decentralization in the AfDB is having some positive effects is one that mirrors similar findings in other agencies. A recent benchmarking study concluded that *'the development effectiveness of field presence is viewed positively by all comparator organizations – in spite of numerous challenges and associated costs'*²³.
- 7.3 Findings from recent reviews of decentralization in other agencies resonate with the challenges and opportunities that AfDB now faces. These can be generalized as follows:
- FOs have a higher success in bringing projects out of the 'at risk' category. Assistance provided through field presence based in a neighbouring country can work well in supporting project implementation.
 - If the benefits of investment in decentralization are to be realized through the provision of a higher level of service delivery (i.e. additional and emerging services and functions), FOs must be fully resourced (balancing staff provision and delegated authority) and client expectations carefully managed.
 - Flexibility is regarded as essential in order to find appropriate answers to different and changing contexts with respect to organizational structures, staffing issues, locations, and the distribution of responsibilities. Diversity is also reflected in the shaping of the structures of FOs. In particular, it is important to use a range of approaches to field presence to respond to different contexts.
 - Whilst some form of local presence in a client country is desirable, small FOs are likely to have insufficient economies of scale to meet reasonable cost efficiency and productivity

²³ Ref. Evaluation of IFAD's Field Presence Pilot Programme July 2007.

requirements. Sub-regional hubs provide a means of conveniently and cost-effectively extending the reach of the agency through small satellite offices managed by local staff. Other forms of local presence such as co-location with other donors can also be considered.

- 7.4 The evaluation did not find evidence of the AfDB directly drawing upon the learning from other agencies in ways which may have improved or accelerated its own trajectory on decentralization.

8. Moving forward: Recommendations

- 8.1 The evaluation suggests that the current approach to decentralization is delivering some benefits, but the scale of these is limited both by the delays in the FO network becoming fully operational and by the shallowness of decentralization across the AfDB in terms of delegated authority.
- 8.2 The wider environment remains highly supportive of decentralization. The current geography and resource allocation of the FOs is, broadly, following the path of setting up an FO in every ADF-eligible country. In many ways, this would seem to be a natural path for the AfDB to take, driven by strong political endorsement and the continuing strong commitment to decentralization within the Bank leadership, and it provides a conventional response to the demands of the Paris Declaration.
- 8.3 However, the evaluation brings out concerns over the cost-effectiveness of the current course. The evidence suggests that the benefits arising from decentralization in different RMC operating contexts are starting to vary and that this variance will increase as the objectives of the MTS (2008-12) are pursued. More specifically, the Bank is planning to significantly increase its activity and role within fragile states. Given capacity gaps and weak mechanisms for donor coordination in fragile states, it is in such environments that a suitably geared FO can make the most substantial difference. In contrast, in non-fragile low-income countries eligible for ADF finance, the current gains that can come through an in-country FO could in future be achieved in other, more cost-effective ways through increasingly harmonized approaches. Moreover, the movement of the Bank away from relatively small development projects to large infrastructure projects, more regional investments and budget support interventions in such countries will start to reduce the area of operations where FOs in-country do make a distinct difference.
- 8.4 The evaluation has therefore considered three broad options for the AfDB in continuing with a decentralized approach. The first option is *to continue on the current course and at the current pace*. From the evidence presented above, it is clear that this will not fully deliver the desired results within the medium term. A second option would therefore be *to continue on the current course but at an accelerated pace* to complete a fully functioning network and associated delegated authority. While this could allow earlier achievement of expected results, it misses the opportunity to align the decentralization process more tightly with the Bank's strategic priorities and with the diverse development agendas in the Bank's various regional member countries.
- 8.5 Accordingly, the evaluation recommends adoption of a third option, which is *to adjust course to address more closely the varied needs of different client segments*²⁴. This 'business-driven' approach would allow for a range of decentralized arrangements tailored to the differing needs of different categories of regional member countries. Such an approach could also be aligned more fully with the Bank's Medium Term Strategy. This option is preferred on the basis that, in the longer term, it will provide a more optimal set of benefits for the AfDB and its stakeholders than the present course looks set to deliver.

²⁴ This option builds on proposals in the DWG report of June 2008: *A 10 point Action Plan for a More Effective Field Presence*. This noted concerns regarding 'enhanced customization of programmes (scope and complexity) and country mandate (MIC, ADF, Fragile States)' (para. 3.4) and proposed a 'business-driven' approach: 'business must drive the design of the function and profile of the FOs...the profile of FOs in MIC, ADF and Fragile States will vary accordingly' (para. 6.1).

- 8.6 Such an approach would entail an expansion of the FO network in fragile states, which are presently relatively under-served. However, for many of the ADF countries where FOs now exist, there may be potential advantages of graduation to a more cost-effective regional office model, with substantial regional offices each servicing several smaller National Programme Offices (NPOs). The location of Regional Offices would be closely aligned to the focal points of Africa's Regional Economic Commissions as well as the AfDB's multilateral partners, facilitating more selective and focused investment in strengthening strategic partnerships. Such regional offices could also serve as 'hubs' providing bases from which corporate service providers (in finance, procurement, ICT and human resource management) could support NPOs, and avoiding the need to deploy an array of corporate services specialists in every field office. Sector specialists could also be organized in regional 'hubs', providing advantages in terms of strength in depth and a richer and more stimulating professional environment, enhancing the quality of technical work²⁵.
- 8.7 In ADB-eligible countries, the emphasis on private sector lending will continue to grow. This suggests advantages in developing a field presence that is designed and geared as a relatively small, highly professional and agile business front closely linked to capacity at the centre (currently in Tunis) to manage large multi-partner transactions.
- 8.8 The proposed way forward is illustrated in Table 3 below. The overarching consideration is how a more carefully tailored, business-driven approach to decentralization, aligned with the business goals of AfDB, can be a more powerful force in delivering on aid effectiveness commitments.

Table 3: Decentralization Approach Focused on AfDB Medium-Term Corporate Priorities

Client Segment (RMCs)	FO type	Focus on
ADF-eligible - fragile states	Fully resourced FO in-country serviced by links with HQ-TRA and sub-regional hubs	Catalytic interventions leveraging resources of other donors in key areas of state building (governance, infrastructure etc)
ADF-eligible	Sub-regional hubs (matching location of RECs) with National Programme Office extensions (co-located with other agencies)	Regional integration Aid effectiveness Delivering a high quality portfolio of large scale national and multi-country projects
ADB-eligible	Small highly professional and agile 'business unit' (adapted NPO)	Growing ADB lending (public and private) Facilitating Public Private Partnerships

- 8.9 The following recommendations are made to AfDB Management:
- **Recommendation 1: Develop a customized, 'business-driven' approach to decentralization, based on a model of three types of business unit servicing the different client segments of ADB-eligible, ADF-eligible and ADF-eligible (fragile state).** To be cost-effective, this would involve rationalization of the existing FO network, as well as some expansion. The business units – a range of FO types - would have resources and delegated authority levels adjusted to reflect the characteristic business environment, client capacity and needs, and the comparative advantage of the AfDB. The FOs would play different roles reflecting the different emphasis being given to specific corporate objectives and the strategic positioning of the AfDB at the regional, sub-regional and national level. The details of this option would need to be developed through a scenario planning exercise that considers the predicted costs and benefits of different configurations.

²⁵ It was also suggested to the evaluation team that consideration should be given to posting Regional Directors in the field. This would also lend weight to reorganization in regional 'hubs', as each regional Director covers several countries.

- **Recommendation 2: Develop clear plans for using decentralization (as one of the instruments at its disposal) to help meet its commitments under the Paris Declaration and the Accra Agenda for Action.** Although the AfDB is formally committed to the undertakings set out in the Paris Declaration and the Accra Agenda for Action, there is scope for improving compliance. There exists an obligation and an opportunity, through the decentralization process, to greatly strengthen the Bank's performance in this area, and to adapt to a more fully country-led approach with a view to stepping up aid effectiveness. It should be noted that the recommended course will be more demanding as a process to plan and manage than Option A or B, and that to date the decentralization process has suffered from structural weaknesses in leadership and management. In order to realize the potential benefits from decentralization, the change both in the FOs and in Tunis must be actively managed. Measurement of both the process and the effects of decentralization needs to feed more strongly into management information and decision making.
- **Recommendation 3: *Establish clear arrangements for management of the decentralization process, with clearly defined accountabilities.*** This is required to actively manage the challenges and risks associated with the proposed changes as well as those (often unanticipated) challenges arising from the decentralization process itself.
- **Recommendation 4: *Improve measurement of decentralization and strengthen learning and accountability by developing a clear results framework*** for a continuing decentralization process within the framework of the MTS (2008-12). Such a framework would not be limited to AfDB activities and outputs, but would seek to link these to measurable changes in the development status of RMCs and progression of the aid effectiveness agenda.

Annex I: References

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Annex II: Field Office Operational Status and Degree of Completeness 2008/2009

	Field Office	Country Eligibility	Year of Board Approval	Year Operational	No of Years Operational	Current Staff Complement (%)	ICT Set up		ICT Fully Complete & Operation	Capital Costs to Date (UA) Excluding ICT
							VSAT	VPN		
1	Egypt	ADB	1999	2000	9	79%	Yes	Yes	YES	372,114
2	Gabon*	ADB	1999	2000	9	88%	Yes	Yes	YES	225,275
3	Morocco	ADB	2004	2005	4	79%	Yes	On-Going	NO	206,547
4	Burkina Faso	ADF	2004	2006	3	100%	Yes	Yes	YES	177,929
5	Cameroon*	ADF	2004	2006	3	100%	Yes	On-Going	NO	289,652
6	Chad	ADF	2004	2006	3	87%	On-Going	On-Going	NO	246,578
7	Congo, DR*	ADF	2004	2006	3	75%	Yes	On-Going	NO	291,433
8	Ethiopia	ADF	1999	2000	9	87%	Yes	Yes	YES	127,648
9	Ghana	ADF	2004	2006	3	80%	Yes	On-Going	NO	285,163
10	Guinea Bissau	ADF	?	2005/06	4	75%	Yes	Yes	YES	
11	Kenya	ADF	2004	2006	3	94%	Yes	On-Going	NO	240,557
12	Madagascar	ADF	2004	2005	4	100%	Yes	On-Going	NO	221,619
13	Malawi	ADF	2004	2006	3	94%	Yes	On-Going	NO	287,515
14	Mali	ADF	2004	2005	4	100%	Yes	On-Going	NO	187,943
15	Mozambique*	ADF	2002	2005	4	89%	Yes	Yes	YES	249,267
16	Rwanda	ADF	2004	2005	4	100%	Yes	On-Going	NO	320,564
17	Sao Tome	ADF	?	Operational	0	0%	Yes	Yes	YES	
18	Senegal*	ADF	2002	2004	5	57%	Yes	Yes	YES	214,700
19	Sierra Leone	ADF	2004	2006	3	79%	Yes	On-Going	NO	312,405
20	Sudan	ADF	2004	2007	2	80%	On-Going	On-Going	NO	77,582
21	Tanzania	ADF	2002	2004	5	78%	Yes	Yes	YES	121,963
22	Uganda	ADF	2002	2004	5	93%	Yes	Yes	YES	177,209
23	Zambia	ADF	2004	2006	3	73%	Yes	On-Going	NO	374,079

* Regional Offices