

## **African Development Bank Group Response to DFID Multilateral Aid Review**

The African Development Bank Group (AfDB or the Bank) thanks DFID for this review. It offers the Bank a great opportunity to receive valuable feedback and strengthen its organisational effectiveness. The United Kingdom is the largest contributor to the African Development Fund-12 and an important shareholder of the Bank. The AfDB's Management is happy to note that the institution scores "satisfactory" overall, although we recognise the scope for improvement. The Bank is committed to maintaining its strategic selectivity and operational focus; deepening its implementation of institutional reforms; strengthening its policies in key areas such as information disclosure, civil society engagement, and environmental and social safeguards; and adhering to the highest standards of institutional integrity in order to deliver development results and lasting improvement in the lives of people in Africa. The diversity of the Bank's shareholders has engendered a rich and lively debate on many of the issues that DFID raises, including aid effectiveness, organisational efficiency, operational priorities, the use of financial instruments and decentralisation. The Bank's policies on these issues reflect the outcomes of these debates and the valuable contributions of many.

This response focuses on providing further information on what the AfDB is doing in the specific areas addressed by the DFID Multilateral Aid Review.

### **Contribution to UK Development Objectives**

#### Critical Role in Meeting International and UK Aid Objectives

*In its Multilateral Aid Review, DFID commended the AfDB for its strong focus on low-income African countries and on economic growth, large infrastructure and governance, but remarked that the Bank's potential contribution is constrained by low in-country capacity.*

The AfDB is pleased that its contribution to international development assistance objectives is seen as positive. We recognise that greater capacity at country level will help our institution play an even stronger role on the ground. The implementation of the new Capacity Development Strategy, adopted in January 2010, will strengthen the development effectiveness of the Bank's operations by using its decentralised services. Furthermore, since mid-2010, Management has been holding consultations with our shareholders to fine-tune our decentralisation plans. The Decentralization Roadmap for 2011-2015, which the Bank's Boards of Directors approved on 8 April, 2011, will strengthen our 27 existing field offices through increased staffing and expanded responsibilities. It will expand the Bank's presence in four fragile states, and will also consolidate regional capacity by enhancing technical and support services at the regional level. AfDB Management is committed to fully implementing the Roadmap, starting with the revision of the Delegation of Authority Matrix to better empower field offices. We shall also give priority to addressing information technology and human resources issues. This includes recruitment and performance monitoring and management.

#### Enhanced Engagement in Fragile States

*DFID lauded the Bank's clear mandate and good reporting, but also observed insufficient in-country capacity and capability.*

The Bank is strengthening its capacity and capability in fragile states, so as to be better able to respond to the particular needs of these countries in their challenging contexts. One of the main elements of the Decentralization Roadmap referred to above is to enhance the AfDB's engagement in fragile states with the opening of four more field offices in the second half of 2011. These would be in Liberia, Burundi, Central African Republic and Togo. This is in addition to opening and fully staffing

our Zimbabwe Country Office in Harare; setting up the Management Unit for the Zimbabwe Multi-Donor Trust Fund; and providing customised training for AfDB staff on operating in fragile states.

#### Promoting Gender Mainstreaming in the Bank

*DFID assessed the policies and practices of the Bank as good, but saw limited evidence of impact.*

Since the adoption of our Gender Policy in 2001, we have made many advances on gender equality in our operations, and this may not have been sufficiently captured. The Bank has reformed and “fine-tuned” its organisational structure to include a new Gender and Social Development Monitoring Division. This division is responsible for providing a more enabling environment and mechanisms for enhancing attention to gender mainstreaming in Bank operations. The mid-term review of the Gender Plan of Action currently being conducted will propose a mechanism for better monitoring and reporting on the progress in its implementation. In order to enhance gender mainstreaming in Bank operations, gender specialists in operations departments and in the Quality Assurance and Results Department are actively engaged in the preparation of country and regional strategy papers, country portfolio reviews and design of operations.

There will be further initiatives on gender training for staff at the Bank’s headquarters and in fields offices. There will also be increased efforts to build partnerships with a number of other stakeholders including the OECD/DAC gender network.

#### Climate Change and Environmental Sustainability

*DFID welcomed the AfDB’s new Climate Change Action Plan and found that the Bank has a big potential contribution. It however observed little evidence of implementation so far, as the details and implementation of the Action Plan are still to come.*

Climate change has become a clear corporate priority for the AfDB. At the institutional level, this can be seen with the creation of the Department for Energy, Environment and Climate Change in May 2010. It is also reflected in the recent establishment of a Climate Change Coordination Committee, which reports directly to the AfDB President. The Climate Change Action Plan for the next five years also shows the Bank’s commitment to scale-up its engagement on climate change. This action plan is expected to be approved soon. The AfDB has given a higher profile, in country and regional strategy papers and in private sector investments, to climate action and building climate resilience into its operations. The Bank increasingly works in conjunction with partner institutions. Shareholders will observe that over the next few years the level of financing for climate change activities will increase substantially when compared to the past years. In order to deliver the Climate Change Action Plan, the Bank will continue to strengthen its internal capacity in an accelerated manner at headquarters and in the field through new staff, training of existing staff, and by recruiting specialised consultants to support the delivery of operational objectives.

We are taking deliberate steps to ensure effective integration of climate change and environmental and social safeguards in our operations. As part of the peer review and approval process, the Bank’s dedicated Compliance and Safeguards Division independently assesses all investments, using a new climate safeguards screening tool. The AfDB is also including an assessment of the potential climate vulnerabilities and risks of projects, as well as adaptation and mitigation opportunities, at the project design stage to ensure that new operations are climate-proofed.

Strengthening capacity in regional member countries to integrate environment and climate change into the development planning process is another priority. In 2010, 17 field offices and member countries benefited from such training, and plans are underway to cover the remaining countries during 2011.

Part of the Bank's commitment to supporting Africa's move toward climate resilience and low carbon development is expanding access to international climate change financing. Our focus has been to support our regional member countries to tap into existing climate finance instruments like the Climate Investment Funds. Under these trust funds alone, we expect to channel around US\$900 million up to the end of 2012 and leverage around three times more from our own resources to support African countries' efforts to pursue a green-growth and climate-resilient economic path. At the same time the AfDB is currently designing new climate finance instruments. These new instruments will address Africa's specific characteristics and constraints. We are also working very closely with the other multilateral development banks to strengthen the methodologies for tracking, financing and assessing the performance of climate change mitigation and adaptation activities (the AfDB is leading in this last area), and to improve safeguards and technical standards to take climate change into consideration.

### Managing for Development Results

*DFID found that the AfDB is setting and achieving management improvements designed to increase the country-level impact of its projects, but also remarked that the AfDB is able to demonstrate development outputs for part but not all its programme, and that projects are not always strongly focused on poverty.*

The AfDB, like other development agencies, measures success not by the volume of resources expended or the number of projects it implements, but by the lasting, positive changes we bring to the people of Africa. Measuring these changes is a complex undertaking. To capture the Bank's contribution to Africa's development across its many dimensions, and better track its own performance in pursuing this goal, the AfDB is taking three important steps.

First, the AfDB adopted, in September 2010, the 'One Bank' Results Measurement Framework as a way of better supporting and tracking the progress of its programmes and activities, including private sector operations. As part of this initiative, the Bank is launching the first edition of its Annual Development Effectiveness Review in June 2011 during our Annual Meetings in Lisbon, Portugal. This review gives an overview of Africa's development achievements and trends, and describes the AfDB's contribution to those results. It also looks at how well the AfDB manages operations (including issues of development effectiveness) and its own organisation. The review will be complemented by more detailed sector reviews of particular sectors and thematic areas, and in due course by country reviews for each of the 53 countries in which the Bank operates. In 2011, we have sector reviews planned for the areas of regional operations, governance and fragile states.

Second, AfDB is improving the metrics and systems it uses to measure its contribution to development. The Bank will produce core sector indicators to capture the key outputs and outcomes in its priority areas of intervention. These areas are: transport, power and clean energy, water supply and sanitation, regional integration, private sector development, human development, and economic and financial governance. To improve the way we capture these outputs and outcomes throughout the lifecycle of operations, we are developing an automated results reporting system. The system will strengthen our capacity to report on different segments of our portfolio by sector, sub-sector, financial instrument, country, etc. and in the priority areas of intervention.

Third, as a way of increasing the quality and development impact of its country strategies, the AfDB is developing a Readiness Review tool for its Country Strategy Papers. This tool will strengthen our institution's focus and its alignment to the national poverty reduction strategies of its member countries, to achieve more visible outcomes and impacts from its development interventions in the foreseeable future. The planned review of the Bank Group Poverty Reduction Policy is also expected to provide a clear guidance to strengthen the linkage between the AfDB priority sectors and poverty reduction.

Finally, the Bank's recently adopted Roadmap for improving performance on development effectiveness and promoting effective development addresses the mechanics of development

assistance delivery targeted by the Paris Declaration as well as a range of measures designed to help African countries achieve their development potential. The goal is not just to comply with the Paris Declaration and Accra Agenda for Action, but to maximise the overall development impact of the Bank's operations. The Roadmap proposes concrete actions to deepen developmental impact across three areas: first in strengthening transparency and accountability for development results; secondly, by expanding the use of country systems to reinforce country ownership; and thirdly, by enhancing field-level engagement through decentralisation.

## **Continued Efforts to Reinforce Organisational Strengths**

### Strategic & Performance Management

*DFID commended the Bank's clear, defined mandate and its strong governing body that holds Management to account, but remarked that the governing body does not always support Management's efforts to base reforms on evaluation findings, and that use of evaluation evidence to challenge Management is variable. DFID also found that the Bank has been let down by weak internal coordination and an inconsistent approach to reform.*

At the AfDB we strive to feed lessons learned back into new operations, and to make full use of the findings of the institution's independent Evaluation Department. Increasingly, evaluations have fed directly into the Bank's decision-making on critical topics and informed strategies and operations. For example, the Supervision Evaluation influenced the overhaul of the project supervision guidelines, the upgrade of the project data and management system, and the staff guidance on implementation progress and results reporting for public sector operations. The Quality at Entry Evaluation helped shape the readiness review system for new projects. Likewise, country assistance evaluations like those for Uganda and Cape Verde have been influential in designing new country strategy papers. Furthermore, the evaluation of the Bank's implementation of the Paris Declaration has contributed to the development of the Roadmap for improving performance on development effectiveness and promoting effective development.

The AfDB's Operations Evaluation Department is also contributing to a range of efforts to build the evaluation capacity of Bank staff and in the regional member countries through learning events, exchange programs, support of African evaluation associations, and through a global programme to establish Regional Centres for Learning on Evaluation and Results.

To strengthen internal coordination and strategic management, the Bank created the position of Chief Operating Officer. As chairman of both the Senior Management Coordination Committee and the Operations Committee (which reviews and clears all operations for presentation to the Board of Directors), the Chief Operating Officer provides a clear link between the Bank's operations and its policy and strategy. Departments with Bank Group-wide responsibilities such as the Programming and Budget Department and the Quality Assurance and Results Department report directly to the Chief Operating Officer. His team coordinates the follow-up of key actions such as audit recommendations and the commitments made during the Sixth General Capital Increase and ADF-12 replenishment discussions. Coordination mechanisms are in place and the Bank's Management is continually fine-tuning its internal processes to ensure the best possible delivery.

*While remarking that operational staff are recruited transparently, DFID noted the AfDB's vacancy rate and found some evidence of poor human resource management.*

In 2010, the vacancy rate fell from 12 percent to 8 percent (taking into account candidates awaiting to assume duty), while 249 new staff members were added to the staff complement. In 2011 the Bank aims to reduce the vacancy rate further to 7 percent. In 2010, the Bank developed a recruitment manual to serve as the reference instrument for all recruitment assignments. It will assist in meeting the challenge of reducing the vacancy rate.

Over the past year, the AfDB has concentrated on putting in place policies that will support its reorganisation, ensure the retention of institutional knowledge and build capacity in support of the decentralisation agenda. Our Learning and Development Strategy aims to strengthen internal capacity that will improve its service delivery to African countries. The Career Development Framework leverages a career development path for the retention of staff and management, and has become the institutional basis for all career progression in the institution. In 2010, compensation reform was further enhanced with Pay for Performance. This supports the new performance management system which enables the Bank to manage its total compensation, by remunerating good performance. Promoting staff well-being that is conducive to higher staff performance and productivity was achieved through health education programmes and illness prevention interventions, which have promoted staff's work-life balance.

In 2010 the Bank conducted a staff survey, with a 73 percent response rate. The results are being followed up, both centrally and by each department, to improve on HR management performance.

### Financial Resources Management

*DFID commended the AfDB's transparent resource allocation process and predictable, long-term commitments, but noted some constraints on the budget support instrument and its 60 percent disbursement rate.*

Building on previous experience, as of 2011, the AfDB Group has made improvements in information disclosure and access to information. It now fully discloses on its website the African Development Fund (ADF) resource allocation process and the inputs into the allocation model (including country and policy institutional assessment ratings, governance ratings and portfolio performance assessments). We also organise seminars for government representatives on the ADF resource allocation system.

Predictability of resources and flexibility in their use are important to the AfDB's clients. Countries receive an indicative three-year ADF allocation, of which the allocation for the current year (and any previous years) is firm. Limited frontloading of next year's indicative allocation is permitted. Individual countries can receive up to 100 percent of their country allocation in the form of policy-based (budget) support; there is a cap on policy-based operations at an aggregate level (25 percent of total resources for country allocations), not at a country level. This cap or the maximum percentage of resources that may be provided in the form of policy-based operations (budget support) is determined per ADF cycle by the donor countries. The Bank is currently revising its policy for Policy-Based Operations which will be the guiding policy for all budget support operations. This policy is envisaged to address a number of issues including flexibility and enhanced dialogue at the country level.

Building on the successful implementation of the decentralisation of the fiduciary functions, the Bank has intensified its training programs (Procurement Clinics) for national institutions in regional member countries, delivered by the Bank's Field Offices. These trainings will better contribute to strengthening Borrowers' procurement capacity, ensuring effective and close monitoring of project implementation, reducing delays and improving disbursement rates.

### Cost and Value Consciousness

*DFID observed that the current methodology for determining AfDB staff salaries tends to imply above-inflation salaries, but that Management and the Board manage to find acceptable compromises.*

The AfDB's current compensation framework was approved in 2008 for five years. However, due to changes in international markets and new strategies approved by the Bank in recent years,

Management and the Board of Directors feel that it is no longer suitable. Therefore, they decided to develop a new Total Compensation and Benefits Framework in 2011. The desired outcome is to maintain a competitive edge in total compensation and to promote the institution as an employer of choice, by developing a compensation program. This program will enable the Bank to attract, retain and motivate its workforce. The determination of staff salaries, administrative costs, and application of cost control measures will, accordingly, be reviewed within the new total compensation framework.

#### Partnership Behaviour

*DFID commended the Bank's good partnerships with partner country governments and the donor community, but remarked some hindrance by slow procedures and in-country capacity, and little use of country systems.*

The AfDB is active in building partnerships and managing bilateral and thematic trust funds, in particular through its dedicated Partnerships and Cooperation Unit. Trust fund resources have strengthened the capacity of a number of our field offices to play a leading role in the development assistance coordination mechanism at country level (e.g. Burkina Faso, Tanzania and Mali). DFID assistance has been crucial in areas such as infrastructure, governance, aid effectiveness, procurement and fragile states.

The Bank is implementing measures to accelerate the disbursement of the trust fund resources provided, including resolving procurement issues, improving the business process and implementation systems, and strong monitoring of the utilisation of resources. The Bank is also focused on ensuring greater alignment, selectivity, additionality and intellectual leadership, while striving to reduce proliferation of vertical initiatives.

Concerning the use of country systems, the AfDB is currently conducting assessments of country procurement procedures in all regional member countries and expects to be able to use the national procurement procedures in Bank-financed projects when national competitive biddings are anticipated in almost 90 percent of African countries by the end of the first semester of 2011. At the same time, full harmonisation of the Bank's procurement rules and procedures with those of the World Bank, combined with the elimination of the Rules of Origin for the ADF to allow universal procurement, have opened the way to participate in pooled donor funding for ADF projects.