

AFRICAN DEVELOPMENT BANK GROUP



**Independent Evaluation of the
Decentralisation Strategy and Process
at the African Development Bank**

For discussion by CODE on 14 July 2009

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

June 2009

Introductory Note

This report summarises the findings, conclusions and recommendations of the independent evaluation of the decentralisation strategy and process at the African Development Bank. The evaluation was undertaken by an international team of consultants from the Performance Assessment Resource Centre, commissioned by the Bank's Operations Evaluation Department (OPEV). The evaluation was launched in November 2008 following approval of a Concept Note for the evaluation by the Bank's Committee of Operations and Development Effectiveness.

In view of the need to feed into preparations for the ADF XI Mid Term Review, the evaluation has been undertaken at a fast pace. While the consultants undertook extensive discussions in Tunis and in eight country visits, it was not possible to arrange consultations with management and staff on the consultants' final report, presented here. Accordingly, OPEV proposes to undertake a final round of consultations on the report before making any final amendments prior to publication.

For the ADF XI Mid Term Review, OPEV has prepared a short summary of key findings, conclusions and recommendations which will be presented to Management for inclusion in the documentation for the review.

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Director, Operations Evaluation Department

22 June 2009



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*Board Report – Final Draft***

June 2009

**Prepared by the Evaluation Team,
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(PARC)**

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Acronyms and Abbreviations

ADB	African Development Bank (financing)
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
DoA	Delegation of Authority Matrix
DWG	Decentralisation Working Group
EDS	Enhanced Decentralisation Strategy
ESW	Economic Sector Work
FDI	Foreign Direct Investment
FO	Field Office
FOA	Formal Organisational Assessment
ICT	Information and Communication Technology
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IFI	International Finance Institution
HCA	Host Country Agreement
TRA	Headquarters of AfDB, in Tunis
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	Temporary Relocation Agency
UA	Unit of Account
WB	World Bank

Executive Summary

Background, Context and Approach

i. The ‘Proposed Strategy for the Decentralisation of the Activities of the African Development Bank Group’ (hereafter ‘Decentralisation Strategy’) was approved by the Board of the African Development Bank (AfDB) in September 2004. The key objectives of the Decentralisation Strategy were to be closer to the client base and to participate more effectively in the countries’ development efforts.

ii. Management pursued a gradual and flexible approach to decentralisation involving the establishment of a network of Field Offices in Regional Member Countries (RMCs), building on an earlier pilot of field presence to support project implementation. The Decentralisation Strategy was designed to move beyond a traditional representative function by strengthening strategic partnerships and better managing the project cycle to generate positive effects on client satisfaction and the quality of the portfolio.

iii. In 2006, the AfDB introduced a wider set of institutional reforms. Allied to this, a set of proposals for an ‘Enhanced Decentralisation Strategy: Strengthening Country Focus and Client Responsiveness through a Tailored Approach’ (hereafter ‘EDS’) was presented by Management to the Board. The proposals were discussed, but not formally approved. Despite the absence of formal Board approval, the ‘whole Bank approach’ to decentralisation became the operating norm (i.e. delegation of authority within a country focused approach).

iv. The broad scope and expectations within the AfDB of decentralisation have continued to evolve shaped by changes in the wider environment, including changes in corporate strategy and new commitments on improving aid effectiveness. Effective and efficient decentralisation is central to the realisation of the Medium Term Strategy (MTS (2008-12)) which, together with an overall focus on significantly improving development results, includes important shifts in emphasis in operational areas towards investment in infrastructure, as well as in regional integration, knowledge services, and deeper engagement in middle income countries (MICs) and fragile states.

v. Against this background, the overall aim of the evaluation is to inform and strengthen the AfDB’s approach to decentralisation, through systematic assessment of the decentralisation 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 are drawn on the extent to which the decentralisation process on its current track looks set to contribute to the overarching goal of *enhanced development impact of AfDB resources*.

vi. The evaluation used a mixed methods approach to combine an appreciation of the human dimensions of the decentralisation process with a more objective formal assessment and a survey of stakeholder perceptions. Desk reviews were undertaken and visits made to Field Offices 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 visited. The country sample covered the range of operating models for ‘Field Offices’ (FO) that the AfDB currently deploys in its lending operations: Country Office (CO); Regional Office (RO) - serving the Country Office and other countries in the sub-region; and National Programme Office (NPO).

vii. The availability and quality of hard data held within the AfDB Monitoring Systems has been a limiting factor for the evaluation. This has been compounded by the lack of rigorous monitoring and reporting mechanisms on decentralisation within management and by the relative immaturity of

decentralisation within the AfDB. The evaluation team has compensated for this by triangulating different sources of evidence. However, given data limitations, particularly as we move up the results chain, the evaluation can only draw causal inferences rather than clear, measurable attribution.

Key Conclusions: Relevance, Effectiveness, Efficiency and Process Management

viii. The objectives of the Decentralisation Strategy were clearly expressed and have continued to evolve in line with growing expectations over what decentralisation will deliver for the AfDB. But there has not been sufficient clarity on the causal connections through which the objectives are to be achieved, nor a clear results framework providing a comprehensive set of targets against which progress can be assessed.

ix. The decentralisation process has been responsive to the changes in the external environment including those originating in the Paris Declaration process. Within its interpretation of a country led approach, the AfDB has taken a path similar to that taken by other agencies, and one consistent with the major thrusts of its 2003-07 Strategic Plan.

x. The decentralisation process is behind schedule. Whilst nearing achievement of targets set in terms of the number of FOs opened, there are some significant gaps in terms of the planned FO network operating at full capacity (e.g. the number of sector specialists in the field, levels of delegated authority and levels of Information and Communication Technology (ICT) connectivity). Small offices lack a critical mass of professional staff. To meet the MTS 2012 commitment of 45% of AfDB staff in the field, a rapid step-up of staffing will be needed in the next three years, largely through relocation of staff currently based in Tunis.

xi. Overall, the objectives of the Decentralisation Strategy are being partially achieved:

- There is clear evidence of change in some important activity areas associated with improving portfolio management through field presence. But this is not yet strong enough nor sufficiently widespread to deliver quality assured project processes.
- There has been no significant change in the nature of the dialogue between the AfDB and the RMC. The proximity of FOs has brought a change in the frequency and responsiveness of dialogue, which are two important elements in the long term process of building trust. But the dialogue has yet to mature into a more challenging form which could have a more appreciable effect on improving development outcomes.
- Decentralisation is improving the visibility of the AfDB within the national setting and within the donor coordination landscape. The AfDB's effort to establish FOs has been generally well appreciated by external stakeholders and there are strong centres of enthusiasm for decentralisation - and further decentralisation – both within the AfDB, and amongst its clients and partners.
- There has been a minimal effect in terms of the AfDB strengthening its ties with regional economic entities and its links with the private sector and civil society.
- Decentralisation is proving to be a positive factor in the growth of the lending volume of the AfDB, particularly in those countries eligible for ADB funding. The evidence is not sufficiently strong to establish causality and increases are likely to be the result of a combination of factors.

xii. There has been a consistent annual underspend on decentralisation. The capital (set-up) and running (operating) costs of the decentralisation process have been less than annually budgeted over the period 2004 to 2008. The slow implementation of the decentralisation process has been the key factor.

xiii. The final costs for the set-up of the network of FOs are predicted to be close to that originally budgeted for. We expect annual operating costs to be up to double that originally estimated with no or very limited cost savings in Tunis (at TRA).

xiv. The Decentralisation Strategy has been an ambitious undertaking and has coincided with an intense period of wider reforms within the AfDB. This has placed considerable demands on management which, despite considerable efforts, have not been fully met. One key area of weakness has been in maintaining a 'whole Bank view' on decentralisation in ensuring consistency and coherence between the wider AfDB reforms and decentralisation and in making sure that small or avoidable problems do not undermine big gains. Decentralisation has not been actively managed as a change project in itself or as part of a wider change process.

xv. There is an inevitable and at times uncomfortable tension between on one hand the diversity in local adaptations that decentralisation brings, leading to some unevenness across the AfDB, and efforts on the other hand towards a higher degree of corporate standardisation. Nevertheless, the 'one AfDB' ethos is a strong positive force towards which decentralisation has contributed. This provides a good platform for developing new ways of working at the AfDB.

xvi. The set of challenges and issues the AfDB has confronted in delivering its Decentralisation Strategy have also commonly been encountered by other comparable agencies undertaking decentralisation. For example, across such agencies, decentralisation is generally associated with increased costs, and efficiency gains are not automatic. Decentralisation is rarely recognised (or managed) as a key element of a wider change process, and weak monitoring of the process and results of decentralisation is a common feature.

Conclusion and Recommendations

xvii. Decentralisation within the AfDB is not yet mature enough to provide evidence of any benefits at scale. There is some way to go in establishing the decentralised systems and capacities which are a necessary prerequisite for delivery of benefits expected in the longer term. However, there is evidence of some clear immediate advantages to having some form of field presence in RMCs and improvements in terms of a higher performing portfolio offer the promise of stronger development results in future. This mirrors the findings of other agencies. But further efforts are required to ensure that, in due course, FOs are fully geared for their expected role, taking advantage of economies of scale; and that there is sufficient flexibility to respond to diverse conditions.

xviii. Some of the early changes attributable to decentralisation are being achieved in parts of the AfDB's operations which have previously struggled: for example, in the challenging environments of fragile states. In such cases, small improvements arising from decentralisation are significant and provide something to build on. The evidence suggests that the benefits arising from decentralisation 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. To maximise the return on continuing investment in the decentralisation process, providing a more optimal set of costs and benefits in different client segments, the detail of the decentralisation approach going forward needs to be shaped more strongly by the medium term business objectives of the AfDB.

xix. In particular, the AfDB is planning to substantially increase its activity and role within fragile states. We conclude that it is in such environments that a suitably geared FO can make the most significant difference. In contrast, in countries eligible for ADF finance which offer a more stable environment, the gains that can come through an in-country FO could in future be achieved in other more cost-effective ways through increasingly harmonised approaches. Moreover, the movement of the Bank away from relatively small development projects to large infrastructure investments, to regional interventions and to increased Budget Support will over time reduce the area of operations where FOs in-country can make a distinct difference.

xx. We see three broad options for the AfDB in continuing with a decentralised approach:

- (A) Continue on current course and at current pace;
- (B) Continue on current course but with an accelerated push to complete a fully functioning network, with associated levels of delegated authority;
- (C) Adjust the course towards an approach more closely tailored to the various needs of different clients.

xxi. ***It is recommended that the AfDB further develops Option C:*** a customised approach based on a model of three types of business unit servicing the different client segments of (i) ADB-eligible, (ii) ADF-eligible (non-fragile) and (iii) ADF-eligible (fragile state). The recommendation is made on the basis that in the longer term, a differentiated approach will provide a more optimal and sustainable set of benefits for the AfDB and its stakeholders than either the present course or an accelerated programme looks set to deliver.

xxii. For many of the ADF countries where FOs now exist, we see potential advantages of a graduation to a regional office model in locations closely aligned to the focal points of the regional economic commissions and the AfDB's multilateral partners. Such regional offices would each service several NPO outposts. Co-location in regional centres could facilitate more selective investment in the strengthening of strategic partnerships.

xxiii. In ADB-eligible countries, the emphasis on private sector lending will continue to grow. This suggests advantages in a field presence that is designed and geared as a business front closely linked to capacity at the centre (currently in Tunis) for managing large multi-partner transactions.

xxiv. The first recommendation is also linked to explicit recognition of the country-led approach set out in the Paris Declaration and the Accra Agenda for Action. Although the AfDB is formally committed to these undertakings, 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. Accordingly, it is recommended that the Bank should ***develop clear plans for using decentralisation (as one of the instruments at its disposal) to help meet its commitments under the Paris Declaration and the Accra Agenda for Action.***

xxv. We recognise that this course – at once a rationalisation and an expansion of the existing FO network - will be more demanding as a process to plan and manage than Option A or B above. It is also clear that, to date, the decentralisation process has suffered from structural weaknesses in leadership and management, and that the varied and ambitious objectives of the MTS (2008-12) will place further demands on management resources. Therefore, it is recommended that AfDB ***establish a clear structure for management of the decentralisation process with clear accountabilities.*** This is required for active management of the challenges and risks associated with the proposed changes as well as those (often unanticipated) challenges arising from the decentralisation process itself. There is scope for establishing an overall coordination unit, with responsibility for chasing progress within an adequately resourced change management programme.

xxvi. It is further recommended that AfDB *improve measurement of decentralisation and strengthen learning and accountability by developing a clear results framework* for a continuing decentralisation 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.

1. Introduction to the Evaluation

1.1 Objective

1. In November 2008 the Committee of Operations and Development Effectiveness (CODE), approved a Concept Note prepared by the Operations Evaluation Department (OPEV), for an independent evaluation of the decentralisation strategy and process at the African Development Bank (AfDB). The results of the evaluation were intended to inform the mid term review of the African Development Fund (ADF) and the ADF replenishment discussions.

2. The evaluation focuses on the period from 2004 following Board approval (September 2004) of the ‘Proposed Strategy for the Decentralisation of the Activities of the African Development Bank Group’ (hereafter ‘Decentralisation Strategy’). It takes into account the evolution of strategic thinking within the AfDB on decentralisation both before and after approval of the Decentralisation Strategy in 2004, within the wider reforms at the AfDB and following the direction set by the AfDB’s vision and Medium Term Strategy (MTS) 2008-2012.

3. The overall aim of the evaluation is to inform and strengthen the AfDB’s approach to decentralisation, through systematic assessment of the decentralisation strategy and early experience of implementation; to review how far the process has progressed against plan and record the results to date.. The core evaluation questions relate to relevance, effectiveness, efficiency and management of the process. This provides the overall structure to the Report with a final concluding section on the extent to which the decentralisation process on its current track looks set to contribute to the overarching goal of *enhanced development impact of AfDB resources*.

4. This Report is complemented by a more comprehensive Working Paper prepared for OPEV. This provides a more detailed account of findings, illustrated by examples of change, and a discussion on a set of ten substantive issues around decentralisation.

1.2 Methods, Evidence and Sources

5. To evaluate the moving target of decentralisation within the AfDB, the evaluation team¹ used a mixed methods approach: complementing an objective and formal organisational assessment (FOA) with use of the Most Significant Change (MSC) technique to bring out staff experiences of the process. The overall design of the evaluation is described in the Concept Note. The Team visited eight countries², with preliminary findings informing the framing of a Perception Survey which validated key findings, reaching out to a wider audience of internal and external stakeholders. An assessment of the costs of the decentralisation process and cost trends was made, and the AfDB experience benchmarked through recent reviews of the decentralisation of other comparable agencies.

6. The primary criteria for country selection (maturity of Field Office, funding eligibility, geography and language) provided an evaluation sample broadly representative of different country conditions across the 53 Regional Member Countries (RMCs) and the variation of operating models in ‘Field Offices’ (FO) that the AfDB currently deploys in its lending operations: Country Office (CO), Regional Office (RO) - serving the Country Office and other countries in the sub-region - and

¹ The evaluation team from the Performance Assessment Resource Centre (PARC) comprised of: Julian Gayfer (Team Leader), Dorte Kabell, Rick Davies, Matthew Crump, Juana Espasa, Ben Arikpo, Edna Elliot-McColl and Isabelle Lemaire.

² Countries sampled: Burkina Faso, Egypt, Ethiopia, Liberia, Nigeria, Senegal, Sierra Leone, Tanzania.

National Programme Office (NPO). The inclusion of Liberia provided an additional ADF country (fragile state) and also an example of a ‘without field presence’ case.

7. To provide a spine to the evaluation, and a basis for compiling the evidence on effectiveness, a logic model of the Decentralisation Strategy was constructed by the Team drawing on objectives and performance measures from AfDB documentation (see section 4.1 for simplified version of the logic model). The model charts the expected progression from programmed inputs and activities, through outputs and intermediate outcomes to a projected longer term impact on the total AfDB operations and on the development process in the RMCs. It also considers key assumptions on changes in the wider AfDB operation providing an enabling (internal) environment for effective decentralisation.

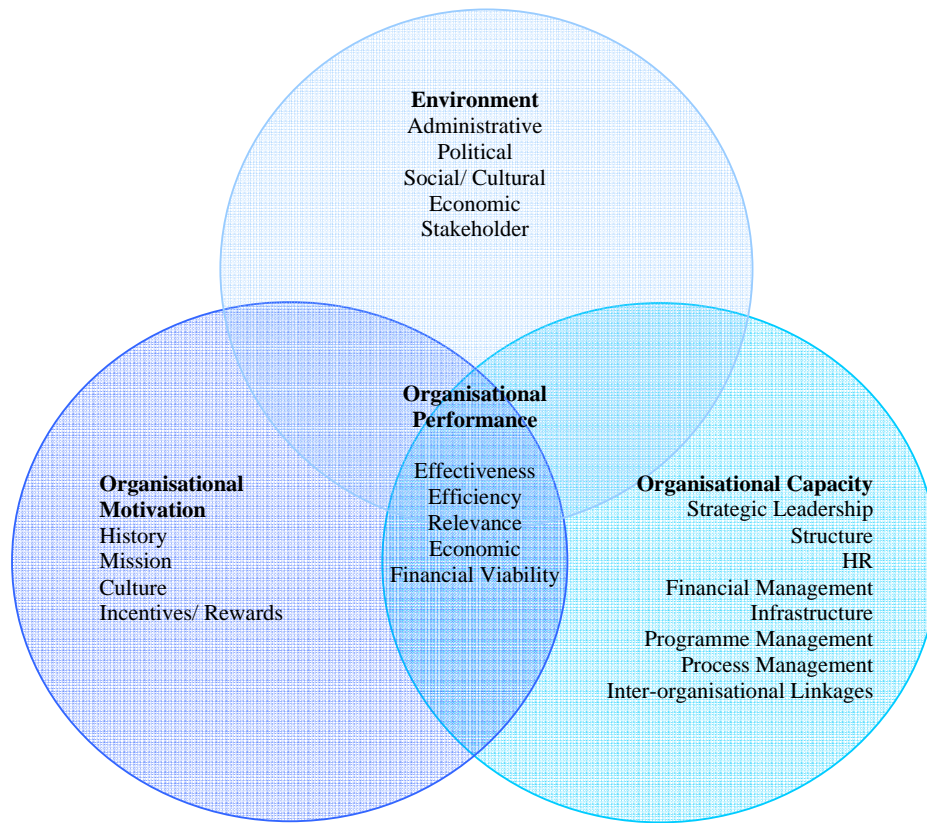
8. Key performance areas within the logic model provided the foci for the gathering of information. The Team drew from a variety of sources: (i) interviews with a wide range of AfDB staff in the field and in Tunis (at the Temporary Relocation Agency (TRA)), and with external stakeholders in-country, (ii) the country and TRA level selection process of ‘most significant’ stories of change³, (iii) a range of secondary information provided by the AfDB, (iv) primary data on the AfDB portfolio held on the SAP system, and (v) responses from the Perception Surveys.

9. The availability and quality of hard data held within the AfDB Monitoring Systems – a recognised concern within the Bank - has been a limiting factor for the evaluation. This has been compounded by the lack of rigorous monitoring and reporting mechanisms on decentralisation within management. In approving the 2004 Strategy and accompanying investment (estimated at 60m UA from 2004–2008) the Board directed Management to submit periodic reports on the impact of decentralisation. The Team has drawn on the July 2008 ORPC Impact Report which considered a smaller sample of RMCs and the continuing series of Status Reports prepared by management on the implementation of the Decentralisation Strategy.

10. The Team’s analysis was guided by the Formal Organisational Assessment (FOA) framework (see Figure 1 overleaf) and its perspective on how the interplay between aspects of the external environment, organisation motivation and organisation capacity affect organisation performance. The Team also considered the nature of any improvement observed along the ‘results chain’ relative to the overall base position and targets of a Bank wide view. The latter provided the basis for a crude ‘with and without’ FO comparison on the working assumption that the effects of decentralisation would be more evident where there was an intensity of field presence as distinct from those RMCs served by a RO in a neighbouring country or an NPO arrangement or where the RMCs were still directly serviced by TRA. Throughout this evaluation the Team has tried to triangulate different sources of evidence. However, given the limitations in information and data, the judgements reached by the Team should be treated as indicative, and causal relationships as probable or inferred links. Clear and measurable attribution was not possible.

³ The results of the MSC exercise were fully documented on a blog (English and French versions) so that all staff within AfDB could view and comment on the 63 MSC stories that had been collected. Video summaries were also provided, along with summaries of discussions of the stories by the FO teams and four stakeholder groups in the AfDB Headquarters in Tunis. Whilst there was interest across the AfDB in viewing the source MSC material (both video and text format), the Comment facility was not taken up. The blog can be found at <http://decentralisingadb.wordpress.com/>. Access is password protected (password available on request).

Figure 1: Formal Organisational Analysis Framework



Source: Inter-American Development Bank

11. The Team has worked closely with and been guided by OPEV, and has benefited from the high level of interest on the ‘decentralisation issue’ running throughout the AfDB’s management and governance structures. The Team interacted with CODE and Management through informal briefing sessions at two milestone points in the process and is grateful for the excellent cooperation that AfDB staff in the field and in Tunis have provided to the evaluation process and for the opportunities to engage in discussions with Members of the Board individually and collectively.

2. Context

Key aspects of the wider institutional setting which both pre-date and run through the Strategy period; the externalities of changing aid architecture, regional integration; and internally a reforming and expanding AfDB.

2.1 Operating Context

12. It is important to recognise that the decentralisation process at the AfDB is unfolding within a dynamic and varied regional context. There has been an intensification of international attention on the particular problems facing Africa, most notably the continuing high and pervasive levels of poverty with many countries remaining off track in their pursuit of national development goals aligned to the MDGs. The particular development challenges of post-conflict and fragile states have been recognised. In turn, there has been wide support from amongst the Bank's shareholders for the AfDB to develop in a way that allows it increasingly to capitalise on its unique position in Africa and the development community, providing a convening platform for a stronger and more effective African voice in regional and global forums and taking the lead on continent-wide initiatives.

13. Since 2000, there has been a significant shift within the international donor community towards a country led approach. This has been reinforced through the Paris Declaration on Aid Effectiveness – which the AfDB signed in 2005 - and more recently the 2008 Accra Agenda for Action. The attention of the donor community was initially focused on the principles of ownership, alignment and harmonisation and considerable resources, both donor and government time, have been invested in harmonising structures at the country level. The extent to which there has been change in the way in which donors have adapted their own ways of doing business has been patchy. There has been a shift towards greater attention on managing for development results (MfDR) and mutual accountability.

14. The period since 2004 has also been marked by a number of changes in the aid architecture. Overall the number and diversity of actors has increased with China and the Arab states emerging as important non-traditional donors in Africa. There has been a continued growth in vertical specialised global funds and major initiatives funded by private foundations. Many African middle income countries (MICs) have had improved access to the global capital markets at competitive rates and their demand for 'traditional' loans from International Finance Institutions (IFIs) has decreased in recent years. Indeed, the type of support now requested from the IFIs is changing.

15. The critical significance of the private sector to development effectiveness has remained a constant theme. Whilst foreign direct investment (FDI) flows to Africa have doubled in the three years from 2004-2007, the distribution of flows remains extremely uneven across countries and is likely to be compromised by the impact of global credit conditions. The scale of private sector provision and financing of infrastructure in Africa is small.

16. There has been a growing consciousness of the potential of Regional Integration and the role of the Regional Economic Communities (RECs). Future success in this area is seen as key in helping Africa to reposition itself as a more united and stronger entity at the economic, financial, social and technological levels, through better control of globalisation and its effects⁴. The New Partnership for African Development (NEPAD) has continued to promote a perspective of combining national development actions with measures taken by the African Union (AU) and the RECs at a continental or regional level to improve results.

⁴ Closing statement by AfDB President, Dr D Kaberuka to the presentation by H.E. Abdou Diouf, AfDB Eminent Speaker Series Vol 1, 2006-07.

2.2 Corporate Goals

17. Decentralisation has also been carried forward within a rapidly evolving corporate context. The 2003-2007 Strategic Plan – the Bank’s first – centred operationally on greater selectivity, particularly at individual country level, with priorities of agriculture and rural development, water and sanitation, and human capital formation. Private sector development and governance were given secondary roles in support of sustainable economic development. Regional economic integration became a strategic priority in the 2005 update of the Strategic Plan and infrastructure projects, dominated by the transport sector, became the key element in a substantial growth over the Plan period in the AfDB’s multi-national operations. Subsequently the AfDB was assigned, through the NEPAD initiative, a lead role in infrastructure, financial and corporate governance. The forging of stronger partnerships with multilateral, bilateral and regional agencies was a core objective of the Strategic Plan.

18. To execute the Strategic Plan, the AfDB implemented a wide ranging and active reform agenda. Reforms were designed to consolidate the internal controls which maintained the institution’s financial soundness and integrity and underpinned the AfDB’s reclaiming of its ‘triple A’ rating; and to address issues of historically poor portfolio performance and equip the AfDB for a significant expansion in its operations. In 2006 the Board approved major changes to the AfDB’s organisational structure, as well as reforms in human resource management, business processes and the budget framework and administration. Three parallel Operations Complexes were created to enhance country focus, deepen sector experience and improve project implementation: a Country and Regional Programmes and Policy Complex to develop country strategy and the programme budget; and two Sector Operations complexes to consolidate internal technical capacity and build greater professional depth in selected areas.

19. The AfDB’s own assessment is that delivery of the 2003-2007 Plan resulted in a small but not sufficient improvement in portfolio quality and knowledge generation and advice developed more slowly than expected. The reports of the ADF-11 Deputies and the High Level Panel confirmed this general assessment and recommended greater selectivity, a focus on growth and regional integration, infrastructure, governance, skills and capacity building and private sector development, and with more emphasis to be given to addressing the needs of fragile states.

20. The MTS 2008-2012, through ‘*the Bank Group in 5 years*’ objective, responded by setting a challenging course for the AfDB with the 2012 vision of the AfDB being ‘*recognised globally, and by its shareholders in particular, as a preferred partner in Africa, providing high impact, well focused development assistance and solutions*’. Given the current base position of portfolio performance and the increasingly crowded field of financing for African development, it will require a significant step-up in all areas of the AfDB’s operations to realise this vision.

21. Improving responsiveness to and engagement in client countries, through a set of measures including effective decentralisation and reduced transaction costs, is one of the ways in which the AfDB is planning to respond. Other key areas of emphasis for 2008-12 shaping the fit between decentralisation and the AfDB’s corporate goals are listed in the Box overleaf.

MTS (2008-12) key areas of emphasis with implications for decentralisation

- Enhancing the focus and growth in infrastructure lending and regional projects through a stronger sectoral emphasis on infrastructure; new investments in infrastructure providing the key instrument through which the AfDB will assist in the agriculture, social (health and education) and - through a concentration on investments in cross border infrastructure - regional integration areas.
- Beyond project finance, providing assistance and advisory services, including work with the AU to increase the effectiveness and relevance of the network of regional and sub-regional economic communities and bodies.
- Renewed and deeper AfDB engagement in RMCs emerging from periods of conflict and decline. In particular, assisting 'fragile' countries to move forward towards more stable political and economic development.
- Deeper engagement in MICs through a more tailored, competitive and actively marketed set of propositions including expanding well targeted non-sovereign operations, principally through private sector investment.
- Aiming to become the first choice amongst AfDB clients for knowledge on African economic and social developments through the provision of more and higher quality knowledge services.
- More effective engagement on key challenges such as climate change, food crisis and gender. Investing in the AfDB's capacity to address the climate change challenge in Africa, primarily through work on the special challenges of adaptation.
- Through active management and delivering on clear targets deepening and extending the AfDB's implementation of the Paris Declaration and the higher standards and expectations which come with Accra Agenda for Action.

22. The MTS (2008-12) includes indicative lending projections showing a substantial increase from 2853m UA (in 2007) to 5900m UA in 2012; with proportionate increases in ADB (private and public) and in ADF lending. The ADF-12 replenishment is assumed to be 50% higher than ADF-11. Lending increases are to be matched by an increase in the number of AfDB staff, rising from 690 (in 2007) to 1090 in 2012.

2.3 Benchmarking

23. Since 2000, in line with a country led approach, many agencies are decentralising their operations to move closer to their client countries and to develop harmonised approaches in the wider donor community.

24. There is no specific or ideal model for decentralisation to be used for the benchmarking of the AfDB. Each agency has a set of unique circumstances which needs to be addressed through a

tailored path marked by specific policy objectives and decentralisation measures. There are however some broad commonalities in terms of shared goals of decentralisation through Country/Field Offices (i.e. alignment and partnership building, reducing transaction costs, optimising development effectiveness). These provide a sufficient basis for reflecting on shared experience. The Team focused its benchmarking reflection on the issues of (i) costs, (ii) gearing for benefits, and (iii) managing change. The report makes references in sections 5 and 6 to lessons learned within a number of comparable organisations including the Asian Development Bank (AsDB), the World Bank (WB), the International Fund for Agriculture Development (IFAD), and the International Finance Corporation (IFC). Several of these organisations have a maturity to their decentralisation processes which is greater than the AfDB and thereby provides a relatively rich source of reflection and learning.

3. Relevance

How the objectives and interpretation of decentralisation have evolved; the fit of the Decentralisation Strategy with wider corporate objectives, and through this with Africa's needs; and the dovetailing of the decentralisation process with AfDB's wider reforms.

3.1 Definitions of 'Decentralisation'

25. The term 'decentralisation' can have multiple interpretations. As a generic concept it reflects various forms of structural arrangements in organisations. As a process, decentralisation involves the transfer of authority and power to plan, make decisions and manage resources, from higher to lower levels of the organisational hierarchy, in order to facilitate efficient and effective service delivery⁵.

26. A fairly widely shared definition (see Box below)⁶ distinguishes between different modes of decentralisation.

Different Modes of Decentralisation

- **Delegation** – assignment of specific decision making authority - i.e. the transfer of managerial responsibility for specifically defined functions outside the normal bureaucratic structure;
- **Divisionalisation** – the division of the organisation 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.

27. The early stages of decentralisation within the AfDB (and the intent of the 2004 Decentralisation Strategy) reflect elements of 'Delegation' and 'Deconcentration' modes. In 2004, decentralisation was synonymous with the opening of FOs to establish a country presence. FOs were effectively extensions or additions to the existing management structure. In 2006, set within the package of wider institutional reforms, decentralisation became synonymous with delegation of authority within a country focus perspective: i.e. with the process of delegating increasing responsibility and authority to lower levels within the organisation, thereby linking FOs in as an integral element of the management structure. However, and this is a critical issue, there is still no uniform understanding across the AfDB of what decentralisation is or can be. This has resulted in the term being used somewhat loosely, without sufficient clarity on what is meant, at times leading to confusion.

⁵ Ref. Smith 1985:1; Rondinelli 1981:137; Kiggundu 2000:89.

⁶ Ref. Found in Hicks (1961), Mintzberg (1979) and Rondinelli (1984).

3.2 The Decentralisation Strategy: Evolving Objectives

28. In September 1999 the Board of the AfDB adopted resolutions committing to a pilot on the establishment of a field presence in RMCs through FOs. This involved three National Offices and one Regional Office⁷ and a limited mandate on supporting project implementation⁸.

29. In 2002 an assessment of the pilot experience and the situation facing the AfDB in Côte d'Ivoire led to a resolution on accelerated institutional decentralisation and preparation of the 2004 Decentralisation Strategy. The Strategy set out the establishment of a network of FOs in RMCs with the mandate of FOs extended to include country dialogue.

30. The key objectives of the Decentralisation Strategy were *'to be closer to the client base and to more effectively participate in the countries' development efforts'*. To achieve this, management approved a gradual and flexible approach to decentralisation, which:

- Emphasised national offices rather than regional ones, but did not exclude the latter in a few selected areas;
- Would establish new offices where the institution's strategic interests and country needs coincided and at a pace consistent with the AfDB's capacity to set up such offices effectively;
- Aimed to progressively 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.

31. The identified advantages of this approach were that the country offices would move beyond a traditional representative function and offer the real possibility of strengthening strategic partnerships and better managing the project cycle, with positive effects on client satisfaction and the quality of the portfolio.

32. In 2006, a wide set of institutional reforms was introduced. In July of the same year, a set of proposals for an 'Enhanced Decentralisation Strategy: Strengthening Country Focus and Client Responsiveness through a Tailored Approach' (hereafter 'EDS') was presented by Management to the Board. The proposals were discussed, but not formally approved. Despite the absence of formal Board approval, the 'whole Bank approach' to decentralisation, encompassing the original driver of 'field presence', became the operating norm. The Box below summarises key elements of the EDS.

⁷ Nigeria, Gabon, Ethiopia & Egypt; collectively known thereafter as Batch 1.

⁸ This reflected a tentative re-engagement with decentralisation given the AfDB's 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 centralisation followed under a reform programme led by the incoming President.

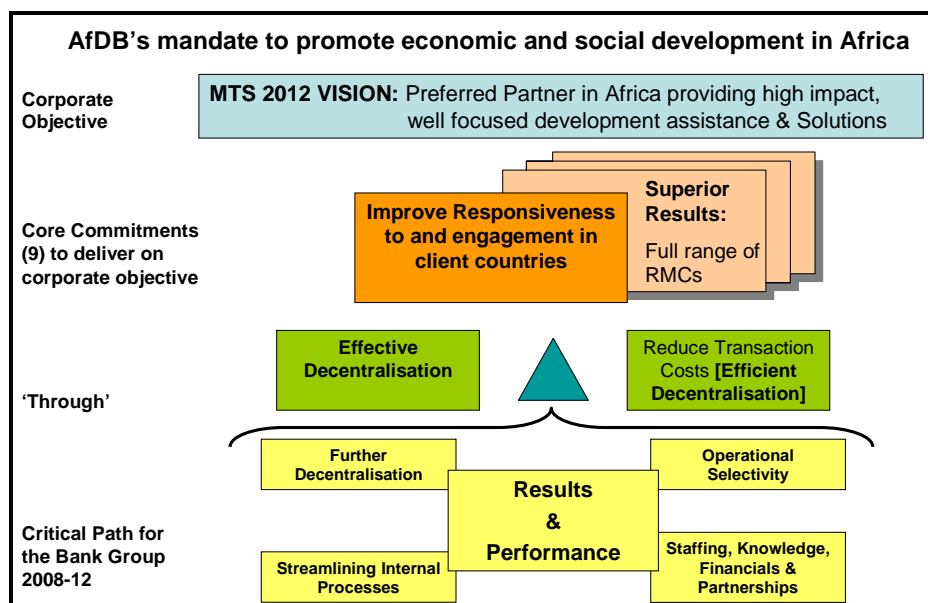
Key Contents of the Enhanced Decentralisation Strategy Proposal, 2006

- Tailored and more empowered approach to AfDB representation in RMCs
- RR position transformed into Country Manager
- Optimal fit of FO staffing with AfDB Strategy, priorities and portfolio
- As required, more senior and international professional staff transferred to FOs
- Increased delegated authority to fully operational FOs (ITC set-up, staff at post)
- FO may request increased approval authority for up to UA 2m
- Regional Offices to recruit quality staff from the region in addition to HQ staff
- FOs to be equipped to support specific needs of programmes in fragile states

3.3 Relevance to Corporate Goals

33. More recently, the extent to which decentralisation is leading to an improvement in the effectiveness of AfDB as a development agency has become the key concern. Effective decentralisation is seen as a cornerstone for delivery in the vision set out in the AfDB Medium Term Strategy 2008-2012 (see Figure 2 below⁹).

Figure 2: The AfDB Group in 5 Years



34. The AfDB has a vision of decentralisation for 2012 *'to leverage field presence to deliver outstanding results for our client countries'*. To this end, the Bank is planning to decentralise further, intensifying efforts to ensure the full effective integration of field with central offices, further tailoring staffing to meet country specific circumstances, and ensuring that lead responsibility for key tasks is given where it makes most sense, including transfer to field-based

⁹ A schematic representation of the positioning of decentralisation within the trajectory of the MTS (2008-12).

officers. It is envisaged that further decentralisation, including an increase in the number of offices and extension of their remit, will be proposed by management in the light of evolving needs, opportunities and accumulated experience.

35. While the detail has evolved, the broad theory of change or rationale underpinning the AfDB's approach to decentralisation has remained constant throughout the period being evaluated. Stated at its simplest: *investment in decentralisation 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.* The documentation reviewed in constructing the logic model suggests that the long-term objectives of the AfDB for its decentralisation process have been clearer in terms of institutional outcomes (e.g. possibility of higher ADF replenishment, enhanced AfDB franchise value) than in terms of how intermediate outcomes will translate through to longer term development outcomes in RMCs.

36. The 2009 Regional Integration Strategy foresees the FOs playing an important role in helping to programme, coordinate and monitor implementation of regional operations. The Strategy outlines the AfDB plans to strengthen the capacity of the regional offices with the placement of Regional Integration experts.

3.4 Objectives Shared with Other Reforms

37. Decentralisation plans were designed to complement and to leverage other reforms in the AfDB. In 2006 a series of institutional reforms designed to improve effectiveness were initiated some of which were directly aligned to the strengthening movement on decentralisation. These are summarised in the Box below.

Institutional Reforms for Development Effectiveness and Managing for Results

- Comprehensive review and streamlining of business processes
- Comprehensive review of internal resource allocation and budget processes
- Improvements to project design, project implementation and monitoring
- Strengthened ADF-11 Results Framework with clear targets
- High quality results frameworks integrated into Country Strategies
- Regular supervision and improved access to the Portfolio Management System
- Procurement and financial management capacity built in FOs
- Mandatory completion of supervision reports and PCRs within fixed timetable
- Transfer of supervision and more decision making responsibility to the field
- Fully harmonising procurement rules and practices with those of the World Bank

Source: Extracted from ADF-11 Deputies Report, Jan 2007

38. As a managed activity, decentralisation now lies at the heart of the AfDB's response to the Managing for Development Results (MfDR) agenda. Accelerated decentralisation is one of the three pillars of the AfDB's (2008) Action Plan for MfDR¹⁰. '*Accelerating decentralisation for better results on the ground*' and '*instilling a results oriented supervision culture*' are seen as key thrusts towards increased agency effectiveness.

¹⁰ The other two pillars are; promoting international partnerships on results and building country capacity to manage for results.

3.5 Conclusions

39. The broad scope and expectations of decentralisation have continued to evolve in step with the wider set of corporate objectives and evolving external environment. Effective and efficient decentralisation is central to the realisation of the 2012 vision of the MTS (2008-12). Yet there is no uniform understanding across the AfDB of what is meant by decentralisation, leading at times to confusion.

40. The decentralisation process has been responsive to the changes in the external environment originating in the Paris Declaration process. In its 'post Paris' interpretation of a country-led approach, the AfDB has taken a path similar to that taken by other agencies, reflected in the major thrusts of the 2003-07 Strategic Plan.

41. 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. These reflect a stronger statement and carving out of the Bank's comparative advantage. However, there has been no formal re-assessment of what this means for the planning, financing, delivery and management of decentralisation activities, in order to support the role that the AfDB is seeking to fill at the continent, region and national level¹¹.

42. The broad logic to the AfDB's decentralisation is clearly stated: a more effective field presence is linked to AfDB's enhanced development effectiveness and impact, contributing to sustained and cumulative benefits to RMCs. However, the exact cause and effect steps in the results chain to achieve this have not been fully articulated, in particular how intermediate (institutional) outcomes will translate through to longer term development outcomes.

¹¹ The Decentralisation 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.

4. Effectiveness

An account of the achievements of the decentralisation process in terms of reach and operations: noting investments undertaken; extent to which outputs have been delivered; and progress made towards development and institutional outcomes. Provides an overall assessment of how decentralisation within the AfDB is set to contribute to improved agency effectiveness and impact.

4.1 Overview

43. A key question for the evaluation is the extent to which the objectives of the Decentralisation Strategy are being realised. Looking across various aspects of Bank operations, the assessment is developed by considering evidence at different levels within the logic model of the AfDB Decentralisation Strategy: inputs/costs; activities/outputs; then outcomes and impact (see Table 1 below).

Table 1: Logic Model Representation of the Decentralisation 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 RMC
	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:	<i>'Strengthening country focus and client responsiveness'</i> (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
Inputs/Activities: <i>(major)</i>	Establishment 16 new FOs; two phases, end 2006 (total to 23), extended to 25
	Investment/ FO (est.) of UA 420,000 Set-up and UA 660,000 annual operations
	Tailored staff complement of international (incl. TRA transferred) and local staff
	Increased delegated authority when FO fully operational – IT set up certified

4.2 Status (end 2008)

44. The Decentralisation Strategy set out a course for the establishment and operation by 2006 (earliest) of 16 new FOs in RMCs, taking the total to a targeted 25 (23 COs and 2 ROs) when combined with offices established under the earlier pilot. By April 2009 there were 22 FOs operating (18 COs and 4 ROs). This is set to increase to 24-25 offices by the end of 2009¹².

45. The plan of the AfDB in 2004 was to have over 90% of the Bank Group's portfolio (in lending terms) covered by the operations of FOs. By 2008, FO operations for RMCs in the form of Country Offices (COs) directly covered 67% of the AfDB's portfolio in volume terms. This figure increases by a further 3% with the addition of those RMCs served by a Regional Office, and by a further 0.5% for those RMCs served by a National Programme Office (NPO). The programmed opening of FOs in Angola, Algeria and South Africa in 2009 will extend this further. Much of the 10% of the portfolio designated as multi-national projects is active in RMCs covered by the FO network.

46. Broadly, the AfDB works in the following client segments: (i) MICs (eligible for ADB lending); Less Developed Countries (eligible for ADF funding or blended ADF/ADB funding); and Fragile States (eligible for ADF funding and Fragile State Facility funding). 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 (i.e. eligible for the Fragile State Facility). A further two fragile states are covered by Regional Office operations. AfDB management have submitted a proposal to the Board for the opening of a new FO in Liberia.

4.3 Inputs

47. The AfDB has not been able to reach full operational status across the network within the time period planned. Important gaps in staffing and Information and Communication Technology (ICT) set-up and functioning remain.

48. Despite a number of positive steps, there is a continuing lag and apparent hesitancy in meeting the tailored arrangements for FO staffing. Small offices lack a critical mass of professional staff. To meet the MTS 2012 commitment of 45% of Bank staff in the field, a rapid step-up of staffing will be needed in the next three years, largely through relocation of Tunis-based TRA staff. This will be challenging based on current practices of allocating new posts and deployment of TRA staff to FOs, which has led to the lag in deployment.

49. The skills mix of FOs is not tightly related to the portfolio. There is some evidence of the AfDB adjusting the configuration of the staffing from the standard 'minimum staffing' template to one that is more tailored to specific needs. But the uniformity of staffing that characterises the current situation suggests that a 'one size fits all' approach has been the practice in the roll out of decentralisation, although it has not been the declared policy.

50. The original plans for placing experienced procurement and disbursement officers in the FOs have not been met. Recruitment is now underway for placing experienced procurement and financial management officers in a number of 'hub' locations. There are issues concerning the

¹² 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.

appointment of the Country Resident Representatives, with not all having gone through competitive selection and recruitment processes.

51. 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 operating 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.

4.4 Implementation: Activities and Outputs

4.4.1 Portfolio Management

52. Three key areas of portfolio management activity were targeted through the 2004 Decentralisation Strategy: procurement and disbursement; project supervision and follow up actions; and preparation of PCRs, with learning feeding forward into improved operations and strategy. These areas were all given renewed emphasis through the 2006 EDS with an additional related activity of ‘driving portfolio clean up efforts’. More frequent project reviews were expected to be undertaken which, in conjunction with increased dialogue with implementing partners, would improve delivery through an ‘Output’ of **quality assured project processes**, reflected by improvements in key areas relating to speed/ frequency and accuracy.

53. FOs are generally making a small (not yet significant) difference to the problem of slow *disbursement* and cumbersome *procurement processes*. The letterbox function of the FO with the non-objection authority still resting in Tunis is constraining potential gains. This is compounded by the currently limited delegated authority thresholds for FOs¹³. This suggests that even with the improvement trend continuing, the overall marginal gain to total AfDB operations is likely to be relatively small, given the current thresholds and the movement of the AfDB towards funding larger projects and focusing on infrastructure where procurement and disbursement transactions are typically much larger. With the Accra Agenda for Action and the commitment to use country systems, the Bank will need to seriously consider how it might better support strengthening of national procurement systems, perhaps through FO staff.

54. The performance of formal *project supervision* in the AfDB remains unsatisfactory with only small improvements in the frequency of supervision missions in recent years. Problems are compounded by the fact that beyond periodic supervision missions, the performance of other supervision instruments, such as Quarterly Project Reports, is low. There has been a small improvement – but not general or large – in the frequency of supervision through FOs. Bank wide increased supervision has not been targeted at projects at risk and projects in fragile states are visited less often than average.

55. There is some confidence within the AfDB that the quality of supervision has improved as a result of involving the FOs. Yet the perceived reluctance within the AfDB to transfer Task Manager responsibility to the sector experts at the FO is seen as constraining the realisation of full benefits. FOs are playing a problem-solving role in project implementation through the establishment of a dialogue with project execution agencies and relevant ministries¹⁴. This is seen as complementary to the formal supervision missions still dominated by Tunis-based staff (a fact valued by FO staff and clients). Nevertheless, the follow up on recommendations from supervision missions is often weak where there is still limited involvement of local AfDB staff.

¹³ The UA 50,000 for procurement reflected 33% of the number of all transactions in 2006 but only 2% in value. For disbursement, the threshold of UA 100,000 represented 70% of all applications but only 6% in value terms.

¹⁴ The Bank has a large number of PIUs. This is inconsistent with the commitment in the Paris Declaration and the Accra Agenda for Action.

56. Across the Bank, supervision is still generally experienced as an event rather than a continuous process. It is expected that this is something that will change with an increasing role of the FOs in the supervision process but to date the supervision process has not been fully adjusted to take advantage of the matrix structure and FO role.

57. AfDB has a poor record of compliance regarding the preparation of *Project Completion Reports (PCRs)*. This persistent issue constitutes a weak link in project supervision and in lesson learning as a means of improving the quality at entry of new projects. As the number of total AfDB operations has increased the backlog of PCRs has grown. However, determined steps are now being taken to address the issue with the issue of a lighter, user-friendly format and other incentives, including a new funding initiative (the PCR Fund). This has already supported some positive initiatives, with FO staff from one country being part of PCR exercises in another country, with the host FO providing the supporting platform¹⁵. This offers an efficient means of increasing the throughput of PCRs along with the wider benefit of building the capacity of field based staff. Nevertheless, the evaluation found no systematic data on the extent to which FOs have undertaken or participated in preparation of PCRs.

58. A number of FOs have engaged in activities designed to *clean up the portfolio*. These exercises have provided early wins to portfolio improvement through a reduction in the number of projects at risk.

4.4.2 Country Dialogue

59. The Decentralisation Strategy targeted three areas of activity on country dialogue: dialogue with RMCs on development policy; with national counterparts on (sector) strategy; and with local partners (including private sector and civil society) on development issues. The central role of the FOs to the AfDB's country dialogue was reaffirmed through the EDS, with the aspect of project governance (accounting and fiduciary responsibilities) being given prominence. This set of dialogue activities was expected to produce an *Output* of a **greater (shared) understanding of the country's particular needs and circumstances** reflected through key indicators for engagement and dialogue with government, other national partners, donors and regional organisations.

60. This evaluation found no strong evidence to suggest that decentralisation is having an appreciable effect on the nature of the *dialogue with RMCs on development policy*. The dialogue on development policy is still largely project driven and intermittent. Country visits clearly demonstrated how FOs recognise the need to engage in country dialogue forums and have participated, but rarely taking a leading role. Weaknesses in Economic and Sector Work (ESW) due to a lack of resources to conduct local studies are a constraint. The potential marginal gain – through FO directed sectoral and thematic studies - in increasing the relevance of the Bank AfDB portfolio to country needs, is likely to be higher in fragile state contexts where project pipelines are expected to expand more rapidly.

61. The activity area of *dialogue with national counterparts on (sector) strategy* also appears weak. This evaluation found little evidence of changes in the contents of the portfolio resulting from a more strategic perspective, beyond references to individual projects. This reflects a wider problem, which the AfDB is addressing, of the Country Strategy Paper (CSP) being too broad a document to guide dialogue and portfolio monitoring.

¹⁵ Account of recent PCR exercise in Eritrea involving a staff member from Sudan.

62. The main lines of the AfDB's operations in an RMC continue to run between the delivery of individual projects and Headquarters. There have been some local initiatives through the FO to facilitate reflection and lesson learning which could inform a stronger sector dialogue but this does not appear to be the norm. FO staff are participating in RMC or donor forums and in some cases are leading or chairing thematic or sectoral groups. However, we found no strong evidence to suggest that these forums are providing a strong mechanism for the AfDB to bring its own distinctive and informed perspective to dialogue with Government at the sectoral or macro level.

63. *Dialogue with local partners – including those outside of government - on development issues* did not come through strongly in this evaluation despite the primary purpose of the FOs being the facilitation of contacts between the AfDB and the Governments, the private sector and civil society. In particular, the evaluation found no evidence to suggest that decentralisation had accelerated the AfDB Group's engagement in RMCs with the private sector. The AfDB's private sector work is largely based on deals developed through the private sector team based in Tunis and through deals made with clients in North America, Asia and Europe. To realise the potential for private sector lending to increase in those RMCs eligible for ADF finance would require the appointment in the FOs of competent experts with responsibility for private sector investment.

64. Overall there is a common sense of decentralisation being instrumental in the continuing process of an improving relationship of AfDB with RMC governments (often working from a low base). This reportedly includes more regular engagement with higher levels of government office. The consequences of a change in the AfDB/RMC relationship are still not clearly evident and we can expect this to take some time to work through. In the Most Significant Change analysis, there was a notable absence of any stories about the Bank taking a more challenging position to government vision and policy – i.e posing the question of whether the government was going in the right direction. Stories on dialogue with other development partners dominated.

65. Whilst there is some movement towards AfDB clients making the FO the first port of call for issues with the AfDB portfolio, old habits die hard. It seems that where clients are still tied up with Tunis-based task managers they are ready to continue that link 'because of familiarity and speedier responses'. Some external stakeholders voiced concern over the ability of the FO staff to consistently have enough information on the issues the projects face or to be able to offer any significant action to resolve issues, lacking up to date information and the authority to make decisions.

4.4.3 AfDB Public Profile and the Wider Donor and Institutional Landscape

66. Investment through decentralisation in the activity areas of portfolio management and country dialogue was also expected to lead to *Outputs* of an **improved public profile of the AfDB in-country** and **improved donor coordination**.

67. The evaluation found a number of examples of FOs improving public knowledge and opinion of the AfDB through local initiatives. There is evidence of the AfDB being more responsive to the local donor landscape in framing its engagements, with increased AfDB visibility at country level providing more opportunities to participate in joint approaches. FOs can play an important role in the AfDB's participation in processes of donors harmonising around a funding opportunity. The evaluation suggests that in those contexts (such as fragile states) where typically the donor landscape is less congested, the potential catalytic role of the AfDB, through its field presence, in leveraging resources of other donors is likely to be more pronounced and locally significant.

68. There are divergent views within the organisation on the extent to which decentralisation has facilitated the AfDB delivering on its commitment to the aid effectiveness agenda¹⁶. The establishment of field offices has provided a visible and widely appreciated corporate response to the Declaration principles of ownership, harmonisation and alignment. The FO enables the AfDB to be a local player in the dialogue and structures of harmonisation and is seen as bringing some benefits in terms of local knowledge sharing, especially where aid harmonisation structures in RMCs facilitate this. However decentralisation has not yet had any significant effect on the principles of managing for development results and mutual accountability, which are harder to address and more likely to challenge the ways in which the AfDB and others conduct business.

69. With regard to procurement, it can be questioned whether decentralisation is helping or hindering the move from the AfDB's regulatory framework for procurement to adoption of country systems and national regulatory frameworks. In the short term, there is clearly a need to get the AfDB's own processes working more efficiently. In fragile states, the opportunity for AfDB to use national procurement and public financial management systems even in the medium term is severely limited. In such contexts, the application of the AfDB's procurement standards and the training of implementing partners in these could be expected to have a beneficial effect (indirectly and in the longer term) in terms of demonstrating practices of transparency and governance and facilitating the integration of standards into a reforming public administration.

70. From 2006 it was expected that FOs would be instrumental in the AfDB **forging closer partnerships with regional/sub-regional organisations responsible for promoting economic integration** and through this allowing the AfDB to play a greater role in the promotion of regional integration across Africa. In this regard, this evaluation found that decentralisation has in general had no wide-scale effect. The AfDB is clearly set on working more closely with the RECs and the potential role of the FOs in taking forward this corporate agenda is recognised. But concrete steps are needed, such as some form of regional placement of experts to support the FOs.

71. One area of a regional approach where the presence of FOs does seem to have had a clear positive effect is in the identification and implementation of multi-national projects, particularly those on regional transportation.

72. Table 2 (below) provides a summary of this evaluation's assessment of Outputs achieved by the end of 2008. This shows a mixed picture, which reflects the still incomplete progress made in establishing the network of fully functioning Field Offices.

73. Table 3 (below) provides a more nuanced picture. This table presents a summary assessment, based on the evidence reviewed, of the extent to which the evaluation found improvements in key activity areas in those countries with FOs; how this relates to an AfDB-wide baseline position; and the potential significance of the Bank's field presence (i.e. FOs). This is a broad summary assessment, drawing together the results of more detailed examination of the relevant underlying activities and outputs. Overall, the picture looks disappointing, with limited improvement found. But it seems clear that, where the Field Offices have been given a significant role to play, there are widespread improvements to report (i.e. in project supervision, portfolio clean-up, and local dialogue). Given responsibilities, FOs seem to be rising to the task. Conversely, in a number of key areas, there is some way to go in terms of transferring responsibilities and resources from Tunis to the field. The assessment shows that there is limited evidence of progress in these areas, with the important exception of procurement.

¹⁶ In general it is recognised that the AfDB still has a long way to go in terms of delivery on Paris Declaration commitments (Ref. Multi-lateral Development Banks Common Performance Assessment System 2007 Report) and the renewed commitments of the Accra Agenda for Action.

Table 2: Summary of Achievements of Decentralisation Strategy: Outputs

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

Table 3: Summary of the effects evident within selected AfDB operations in RMCs with FOs in-country

Activity Areas	Operation	Baseline position	Widespread improvement evident	Potential significance of field presence to improvements
Portfolio Management	Procurement and Disbursement	High	Yes	Low
	Project supervision and follow up	Low	Yes	High
	Preparation of PCRs	Low	No	Low
	Driving Portfolio clean up	Medium	Yes	High
Conduct of dialogue in RMCs	Dialogue with RMC on development policy	Low	No	Low
	Dialogue with national counterparts on (sector) strategy	Low	No	Low
	Dialogue with local partners (including private sector and civil society) on development issues	Low	No	Low
	Dialogue with local partners (other development agencies)	Low	Yes	High

4.5 Progress towards Outcomes

74. The previous section has been able to report on achievements given progress evident in targeted performance areas (activities to outputs). However it is too early to report conclusively on progress towards *outcomes* (see Table 1: Logic Model). This section draws on the limited evidence of change that is available at the outcome level and relates progress to the wider expectations of the AfDB in terms of the speed of transformation in its operations.

75. The theory of change implicit within the AfDB's 2004 Decentralisation Strategy is that effective field presence and delegated authority within the organisation will, in concert with wider changes and reforms in the AfDB, contribute significantly to higher portfolio quality and client satisfaction. The evaluation team reviewed progress towards outcomes, through a set of performance measures, in relation to the two areas of; (i) faster project operations, and (ii) increased quality of the country portfolio. Linked to (ii) was the expectation that decentralisation would be instrumental to the AfDB achieving an increase within RMCs (with FOs) in public and private sector lending. Key findings are summarised below.

4.5.1 Faster Project Operations

76. The decentralisation process within the AfDB is off-track (in relation to expectations) in terms of the degree of change achieved by 2009 in speeding up project operations. This can be explained by the delays in reaching full operational status of the FO network and the hesitancy on delegation of authority within management structures.

77. A field presence for the AfDB can be instrumental in realising a significant improvement in the lead time for loan effectiveness (getting close to the targets that AfDB has set itself). However, this improvement is not automatic and is dependent on the nature of the tripartite relationship between, the staff involved in Tunisia, in the FO and in Government.

78. To date, decentralisation has not been a significant factor in the steps the AfDB has taken to improve its disbursement rate. Nevertheless, the front end operation of FOs in the disbursement process has (after an initial lag) generally accelerated entry into the chain of approvals in Tunisia. The personal contact provided by the FOs has had a beneficial effect in the efficiency of procurement transactions that are within the FOs' level of delegated authority. The importance of this gain will vary with the operating context: it will be higher in fragile states where national capacities are weak; and lower in MICs where there are greater capacities and typically much larger transactions involving ADB loans.

4.5.2. Increased Quality of the Country Portfolio

79. The decentralisation process is on track in some important areas of change associated with increasing portfolio quality and falling short (i.e. off track) in other key areas. Overall the trend is positive but patchy, and in need of more determined efforts.

80. Field presence can be an important element for accelerating a reduction in the proportion of Projects at Risk (PAR). This is likely to be a stronger factor in those countries eligible for ADF finance – where reducing the number of PARs to targeted levels has proved particularly challenging - as opposed to those eligible for ADB finance, where the major gains have been largely achieved already.

81. Decentralisation within the AfDB does not yet show consistent signs of leading to a more proactive and demanding style of portfolio management. This would be reflected in an increase in the rate of project cancellations for ageing and/or non-performing projects, which is not widely found as yet. Interestingly, AfDB's RMC partners tend to perceive a stronger association between decentralisation and improvements in the quality of the portfolio than the numbers would suggest.

4.5.3 Increased Lending Volumes

82. Field presence appears to have been a contributing factor to the AfDB significantly increasing its lending volume. This effect has been most pronounced in RMCs eligible for ADB (public sector) finance (see Table 4 below), although gains have also been made in RMCs without FOs. Together, increased Government requests for financing in ADB countries have reversed the trend in the ADB loan portfolio. In contrast, there has to date been no appreciable effect of decentralisation in terms of increased private sector borrowing.

Table 4: Trends in the value of AfDB portfolio; sub-sample of countries with FOs.

Performance indicator	2005	2007
Volume of new loans for ADB countries with FOs	549.5m	1161.3m
Value of the ADB countries portfolio overall	2,050.4	2881.2

Source: Table 2, ORPC Impact Study, 2008

83. Table 5 (below) provides a summary assessment of progress to date towards Outcomes and the relative significance of decentralisation to progress being made at this level.

Table 5: Summary of Achievement: Progress towards Outcomes

Outcomes of Decentralisation:	Assessment:	Assessment:
Targeted intermediate outcomes within RMC operations with/ covered by Field Offices	On track/ off track in terms of meeting expectations on desired state by early 2009	Relative importance of the Decentralisation process to the progress made towards outcomes
Faster project operations	Off track – positive direction	High
Improved quality of the country portfolio	Off track – positive direction	Low – too early to say
Increased lending volume	Broadly on track	Positive factor

4.6 Impact Pathways

84. It is too early to expect to see clear evidence of the kind of broad *impacts* set out in the logic model: improved development outcomes for RMCs and an allied continent-wide change in the scale, value and quality of the AfDB's business.

85. In an attempt to correlate observed changes of faster project operations and increased quality of the country portfolio to a trajectory of improved development outcomes, the evaluation team used the lens of the AfDB's ratings for Portfolio Performance:, which is a composite of the 'Implementation Progress' (IP) Index and an index for 'Likelihood for achievement of development objectives' (the DO Index). Although there are limitations in terms of the quality of the data on which it is based, this analysis suggests that:

- Decentralisation has a positive effect on *implementation progress* but this effect is small and takes time to work through, becomes clearer and stronger as the FOs mature, and relates to a relatively low base position across the AfDB operations ('compliance is satisfactory').

- A FO in-country is not a pre-requisite for realising a significant change in improved portfolio performance in terms of the likelihood of a project achieving its *development objectives*. A range of factors is in play.
- A field presence in a country is not a sufficient condition for increasing the likelihood of the project portfolio achieving *development objectives*. Again, a range of factors play a role.

4.7 Counterfactual evidence

86. Given the pervasiveness of the Decentralisation Strategy across the AfDB's field operations¹⁷ and within the operational complexes, the evaluation has not constructed and tested a formal counter-factual. However, the inclusion of Liberia in the evaluation sample provided an example of a country where the AfDB has 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 team¹⁸. Some support has been provided through the FO in Sierra Leone but this has been constrained by pressures on staff time in Sierra Leone. The overall sense is that this arrangement, operating in a challenging environment, has resulted in:

- Limited understanding amongst stakeholders of the AfDB – how it works, what its objectives are, what its key drivers are;
- Limited understanding of the AfDB's Decentralisation Strategy/ process;
- Poor communication and some mis-communication with the AfDB;
- Limited presence – no visibility; limited leverage;
- External stakeholders finding the relationship with AfDB via the Sierra Leone Field Office difficult due to lack of responsiveness/ delays;
- Lack of shared responsibility and accountability when AfDB surrenders its decision making authority to donors in-country.

87. It seems clear from this snapshot that field presence is important in establishing the Bank's profile in-country, in facilitating communication, and strengthening accountability.

4.8 Conclusions

88. There are recognised weaknesses in the availability and quality of operational and financial data within the Banks systems. This, coupled with the relative immaturity of decentralisation within the Bank, means that in many areas, and particularly as we move up the results chain, the evaluation can only draw causal inferences rather than clear, measurable attribution.

Status: coverage and inputs

- The AfDB is close to meeting its target of establishing 25 FOs. The proportion of the portfolio covered by the FO network is high at 81% (with the inclusion of multi-national operations). Fragile states are the client segment with least coverage by in-country FOs.
- The AfDB is behind schedule in having a fully operational FO network. There are critical gaps in staffing and IT set-up. Small offices lack a critical mass of professional staff. To

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 The Field Office in Sierra Leone has a supporting role but this is constrained by the pressures on staff time in Sierra Leone.

meet the MTS 2012 commitment of 45% of AfDB staff in the field, a rapid step-up of staffing will be needed in the next three years, largely through relocation of Tunis-based staff.

Implementation: Activities & Outputs

- Field presence has resulted in an improvement to important activity areas of portfolio management. In some cases (project supervision and follow-up, and portfolio clean-up) this development is regarded as significant given the poor 'base' position of the Bank.
- Field presence has made a small marginal difference to the way in which the Bank conducts dialogue with RMCs. 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 and the culture of the organisation.
- The Decentralisation Strategy has yet to complete delivery of its targeted primary outputs; (i) quality assured project processes (*partly achieved*), (ii) a greater (shared) understanding of the country's particular needs and circumstances (*partly achieved*).
- More progress can be seen in the secondary and more limited aspects of the Strategy; namely, (iii) improved public profile of the Bank in-country and (iv) improved donor coordination. In both cases the positive perception of external stakeholders to the difference field presence has made may be more important than the reality.

Implementation: Outcomes

- Decentralisation 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 organisation. The links with decentralisation have been recognised, but not yet built into business processes.
- The AfDB remains off track in terms of the desired level of improvements regarding faster project operations. 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 decentralisation forward, particularly with regard to delegated authority and the operation of Country Teams.
- Regarding the increased quality of the country portfolio, the AfDB is moving in a positive direction but is off track in terms of pace and coherence of approach. Decentralisation (understood as field presence plus delegated authority within Bank structures) has not yet gone far enough for the desired step-change in the quality of the country portfolio is to be achieved.
- Overall, the evaluation found little evidence to suggest that decentralisation within the AfDB is having a big effect on sharpening the relevance of AfDB assistance to country needs. To date the structures and patterns of behaviour through which the AfDB operates provide (in practice) only a minimal role for the FO in shaping the size and nature of the portfolio.
- Although field presence is proving important to strengthening the relationship with the RMC, the consequences of a change in this relationship are still not clearly evident. Whilst

we can expect changes to take some time to work through, the absence of reports from staff about the Bank taking a more challenging position to government policies was notable. In contrast, there were numerous reports regarding dialogue with other development partners.

Impact Pathway

- There is no clear evidence – and it is too early to expect this – of the current model of decentralisation together with wider Bank institutional reforms leading to an enhanced agency contribution to RMC development outcomes.
- Decentralisation has been a positive factor in the growth in scale and net value of Bank operations achieved in recent years.
- Decentralisation is a positive and essential factor in meeting the AfDB's broad aim of *strengthening and accelerating the AfDB Group's responsiveness to client countries priorities and needs.*

5. Efficiency

A review of the costs of the decentralisation process (incurred and projected). An assessment of cost-effectiveness, considering outputs delivered and longer term benefits.

5.1 Costs

89. The assessment of costs has been based on the information (budget and expenditure) supplied by AfDB management for the period 2004-08, with interpretation and extrapolation conducted by the evaluation team. We have considered: (i) the set-up capital costs of the FO network against expectations, and (ii) the costs and savings of decentralising, tracking possible increase in operating costs at FOs and decrease of costs in Tunis (around service areas, through changing staffing patterns and reducing back office functions through delegation etc). Our enquiries were hampered because actual budget utilisation is not systematically monitored, aggregated and reported ex-post broken down by various activities. Whilst there may still be some gaps in the figures, the headline findings and conclusions are robust. All financial figures are given in Units of Account (UA).

5.1.1 Capital costs

90. The total resources invested (UA million) in the set-up of the FO network since 2004 (5 years 2004–2008) are calculated to have been 7.7m UA; this includes 2.59m UA for ICT set-up. This capital figure is indicative given that other costs such as initial training of FO staff are not visible and have not been accounted for.

91. 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 0.485m which is only slightly higher than the average figure of 0.418m originally specified within the Budget assumption for the Decentralisation Strategy and re-affirmed in the EDS.

92. However, the figure of 7.76m represents a significant underspend against the budget figure of 13.71m (based on an aggregation of the annual budget figures over the five year period). The original budget estimate for the set-up of the FO network was 9.6m UA.

93. Given the prevailing deployment gaps within the 23 FOs, we estimate that average capital costs of the FOs will increase to exceed 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.

5.1.2 Running costs

94. Over the five year period (2004-08), the total expenditure on FO network running costs has been 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 unaccounted for. Central Departments in Tunis maintain a general operating budget with no line items for FOs. Consequently, as the costs of decentralisation are not disaggregated, it is impossible to see the full picture.

95. The figure of 51.85m compares to a budgeted 69.44m (based on an aggregation of the annual budget figures over the five year period). It is assumed that annual budgets have been approved based on the sequence of establishing FOs with budgets re-set for each year ahead in line with progress in establishing the FO network.

96. The 2004 Decentralisation Strategy estimated an average annual operating cost for each office of 0.657m. The administration cost figure for 2008 of 23.33m (corresponding to 23 established but not yet fully geared FOs) suggests a true annual operating cost of over 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.

97. The original global budget for one operating year of the FO network was 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 that originally estimated.

98. The evaluation found no reports of any cost savings arising within the Tunis TRA as a result 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 authority¹⁹. This graduation of FOs has not happened.

5.2 Cost Effectiveness

99. Comparing the outputs of the decentralisation process with the AfDB's expenditure to date on decentralisation inevitably raises some concerns over cost-effectiveness. There have been some areas of inefficiency (e.g. weak forward planning on buildings to house the FOs, leading to additional costs being incurred). But the more significant issue has been the failure to get the FOs fully geared more quickly (i.e. appropriately staffed with the required infrastructure, resources and authority). This has meant that the potential of early gains through a decentralised approach has not been fully realised. This is evident from the analysis in Section 4 on effectiveness. Given relatively slow progress in establishing and fully gearing the FO network, the AfDB is not yet obtaining full value from the capability in which it has invested,

100. In many similar organisations, decentralisation involving the establishment of field/ regional offices has generally been associated with a general increase in overall running costs. Increasing the development effectiveness of operations and cutting the costs of operations are not necessarily compatible. Moreover, efficiency gains within Headquarters were not automatic and were found to require deliberate action. Where decentralisation procedures were implemented correctly, increased organisational output and performance were associated with increased costs. Realising the full benefits of decentralisation is likely to require substantial incremental budget outlays. One measure taken by the Canadian International Development Agency's (CIDA) after it had embarked on a major decentralisation of staff in the 1980s, and concerned among other issues with rising costs, was to embark on field presence more selectively in a limited number of countries.

5.3 Outlook

101. It is plausible to suppose that some of the early gains arising through decentralisation might have been achieved more cost-effectively through other means i.e. 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

¹⁹ Highlighted in the EDS costing assumptions which matched the original 2004 assumptions.

difficult environments; and adopting better harmonised 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 decentralisation model.

102. 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. On the latter point, rough quantification is possible by looking at the sub-set of the 13 countries reviewed in the 2008 impact study and crudely apportioning relevant costings from the financial analysis conducted by the current evaluation. From this, it can be inferred that the increase in value of new loans of UA million 611.8 across these countries cost UA 26.19 million in administrative costs with a capital budget cost of UA 8.33 million for the period 2005 to 2007.

103. It can be concluded that the AfDB's business goals of making a bigger and stronger contribution to sustainable development in the region requires effective relationship management which involves some form of effective decentralised field presence, serviced and supported by central departments. This 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. But from the point of view of cost-effectiveness, and building on the investments already made in decentralisation, 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? A rough analysis of available cost information suggests that the annual operating cost to the AfDB of a country serviced by an FO compared to a country serviced by a Regional Office structure is effectively double. These issues and a range of options are explored further in section 7.

104. 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'*. Aggregated across the continent and strengthening the unique position of the AfDB, this may prove to have a wider and indirect but powerful, valuable and cumulative effect on improving development outcomes.

5.4 Conclusions

105. There has been a consistent annual underspend on decentralisation. The capital (set-up) and running (operating) costs of the decentralisation process have been less than annually budgeted over the period 2004 to 2008. Slow implementation has been the key factor here.

106. The final costs for the set-up of the network of FOs are predicted to be close to that originally budgeted. We expect annual operating costs to be up to double original estimates, with no or very limited cost savings in Tunis. The additional costs of decentralisation are commonly found in development agencies undertaking decetnralisation.

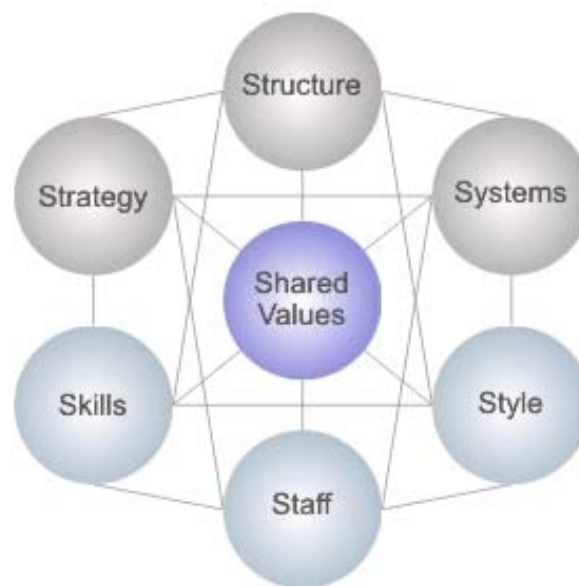
107. Overall, there is sufficient evidence to demonstrate clear advantages to being present locally, although the benefits, both in the immediate and longer term, are difficult to quantify given that the decentralisation set out in the 2004 Strategy has not yet been fully implemented. Building on the investments already made in the decentralisation process, there is a case to consider adapting the existing FO formula in a way that may provide a more optimal set of costs and benefits.

6. Managing Change

Considers how well the decentralisation process has been managed, how the change has been measured and the need for structures for accountability, control and delegation. Positions decentralisation within ongoing wider reforms and considers the challenge of sustaining change.

108. Management theory conveys the inter-dependencies between different dimensions of an organisation and the way in which the ‘fit’ between changing dimensions needs to be continually tracked by management. McKinsey’s 7S Model (see Figure 3 below) provides a useful framework through which to explore how decentralisation embedded within the ‘whole Bank approach’ was managed as a process and how far necessary adjustments were made to mesh with wider reforms.

Figure 3: The McKinsey 7S Model



6.1 Managing the Decentralisation Process

109. A Permanent Committee for Field Offices (PECOF) was established in 2004 under a Presidential Directive and charged with supervision of the opening and operationalisation of the new FOs. This role was endorsed within the 2006 EDS. 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 the decentralisation process in the round (i.e. the role of FOs and the delegation of authority within the organisation).

110. The 2006 Task Force on Institutional Reforms whilst calling for PECO to be the focal entity responsible for FO operationalisation also refers to the strengthening of links of FOs to the operations complexes. To a certain extent that has happened but in an informal manner. Seen in an operational perspective, this has left a managerial and accountability gap around decentralisation.

The Decentralisation Working Group (DWG) was established in 2008 as part of a wider set of *ad hoc* reform initiatives. Responding to mounting internal pressure for improved coordination on operational matters, the DWG proposed the revamping of PECOF and the preparation of new ToR in its '10 Point Action Plan for Decentralisation' but this has not been followed up. The mandate, status, membership and authority of PECOF or a similar body to replace it requires clarification if it is to play an effective role in managing the decentralisation process.

111. Decentralisation by its nature involves not only the operations departments but also the complexes responsible for finance and corporate services. However, there has been a lack of clear leadership at the strategic and operational levels. The President of the AfDB has demonstrated strong ownership and commitment to decentralisation 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. There was unanimity among interviewed staff both in the field and in Tunis 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'. The EDS proposed that the drive for the roll out of precise staffing requirements for decentralisation would come from the Regional Departments, but this neglects the role of the corporate services and finance complexes which have critical roles to play.

112. The Strategy identified a number of internal challenges it foresaw would need to be actively managed as the process unfolded, including discomfort among some managers with a model which emphasised experimentation, evaluation and adaptation rather than a uniform approach. More recently there has been recognition of decentralisation as a change process that needs to be actively managed in order to manage the risks of not reaping the full benefits. An example of the tensions and misunderstandings that can arise is the recent assimilation of national experts (recruited by the FOs) into the sector departments. This can be perceived as a centralising pull, inconsistent with decentralisation and delegation. As one respondent commented that this was '*emptying the decentralisation objective of its substance... a step towards the ...AfDB management making the FOs a kind of mission control for the actions of Task Managers and their departments*'

6.2 Measuring the Change

113. In 2003, a results measurement framework was introduced for the ADF. Initial efforts to take this forward under the Strategic Plan 2003-07 proved complex and unwieldy. The ADF-10 agreement included adoption of a detailed results matrix but this 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 decentralisation*'²⁰. A set of institutional internal reform indicators for ADF-11 were identified to allow management and shareholders to monitor progress in these areas in order to strengthen delivery of results.

114. In this context, monitoring of the effects of implementation of the Decentralisation Strategy has been patchy and poorly integrated, with minimal follow through on an initial set of indicators. As a result, the control mechanism monitoring and managing the process has been weak. Since 2004, a number of internal documents on implementation of the Strategy and assessments of effectiveness have been produced, but the value of these has been limited by the availability of robust data and the absence of an institutional structure within which to analyse feedback information to management consistently and routinely so that effective strategic direction could be given.

²⁰ The other two areas are: an increased capacity to harmonise in line with Paris Declaration goals, and more systematic managerial-level engagement.

115. A strong systematic learning culture on decentralisation across the AfDB has yet to emerge. To date the decentralisation process can be characterised as a series of multiple ongoing experiments. One of the examples of such small experiments is where decisions have been taken to appoint a task manager 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 not mandated. They were local decisions 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 decentralisation. But a mechanism is needed to monitor, analyse and share information about such instances of innovation and good practice.

6.3 Accountability, Control and Delegation

116. Ineffective cascading of objectives and expectations regarding results, from AfDB strategic goals down to FO operational targets, has led to incomplete measures of performance and weak accountabilities. AfDB management have not articulated to staff and FOs the AfDB's mandate and expectations regarding the role of FOs in delivery with sufficient clarity. Management and staff in various departments and teams across the organisation are responding to decentralisation and the evolving mandate very differently. There are different perceptions of what it means, different patterns of engagement, and mixed responses reflecting varying degrees of commitment and openness to change. The role of the RR and the FO has not been defined with sufficient clarity to ensure common standards and practices. This has provided considerable space for local interpretation, particularly by Resident Representatives (RR), producing unevenness across the FO network.

117. Strong staff have used these freedoms to take the initiative and move things forward. This is an important and desirable outcome of decentralisation, but one that needs to be monitored and encouraged through publicising of useful initiatives. However, the direction taken may not always be in a direction that senior management wishes or one that strongly reflects corporate priorities. Conversely, weak or uncommitted staff may take the opportunity to do very little. The incentives at the disposal of senior management to reward strong staff and sanction weak performance are not well-defined.

118. In 2006, there was a proposal to transform the position of Country Resident Representative into the Country Manager position. This has not been formalised, although a recent update note on the status of decentralisation from management uses this term. There remains an ambiguity over who manages and who is accountable. Responsibilities for the delivery of the AfDB assistance to the RMC are unclear.

119. 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. Given the size and history of the organisation, it is to be expected that such a change would take time to be fully understood, developed and adjusted as learning takes place. However, as with decentralisation, it seems that the introduction of new practices was not managed as a change process, was not well communicated and that insufficient attention was paid to securing commitment from all quarters. The result is that the matrix is still perceived to be confusing. The dual reporting system introduced to address some of the issues has not yet helped, and while the Delegation of Authority Matrix has clarified some reporting lines, 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.

120. The chequered history of past experience with FOs in the 1990s loomed large in the minds of many interviewees and may be at the root of reticence in parts of the organisation to execute the Decentralisation Strategy more aggressively. Given changes both in the external environment and improvements in the AfDB's own control environment and organisational capacity, past experience and present risks are not completely comparable. The evaluation team was not informed about any major cases of misconduct within FO operations since 2004. This suggests that the control structures now in place are proving effective in managing the risk to AfDB operations and the Bank's reputation. Some staff raised a concern over the lack, at central level, of an inspection function for FOs, similar to what most bilateral donors have for their embassies. The role of that unit would be to complement the audit function and monitor the maintenance of certain standards, conduct selective 'fit for purpose reviews' and ensure a solid control environment.

6.4 Coordinating Decentralisation and other Reforms

121. Implementation of the Decentralisation Strategy has been undertaken during a period of intensifying reform and change within the AfDB. Much of the reform agenda has been focused on improving the performance of the AfDB's portfolio. The package of institutional reforms which started in 2006 was premised on bringing change in four related areas of the management of AfDB operations,²¹ within which immediate actions were identified including those directly labelled as 'decentralisation' (e.g. increased field presence through 25 FOs being opened and operational). Whilst such actions were formalised and resourced within the 2006 package of institutional reforms, many of these built on threads of activity running back to 2004 and in a number of cases such as increased field presence, even further back to 2000.

122. The conceptualisation of the decentralisation process and of its fit with wider institutional reforms was good at the outset and the inter-dependencies are well appreciated across the organisation. However, there has been limited reflection upon and adaptation of the Decentralisation Strategy as the wider reform process has unfolded. Decentralisation has not significantly influenced the sequencing nor nature of other ongoing reform processes. Whilst the reforms are all broadly aligned, this has led to inefficiencies. Other agencies have experienced similar issues. Failing to recognise (or manage) decentralisation as a key element within a wider change process has been a common issue. The strongest interplay between decentralisation and wider AfDB reforms has been evident in the areas of human resource management. The weakest areas have been in other business processes and IT.

123. A series of *Human Resources* (HR) reforms (many of which are not directly concerned with decentralisation or the setting up of FOs) are showing positive effects. However, coordination weaknesses in establishing FOs exacerbates the frustrations felt by locally engaged staff in terms of their situation compared with international and Tunis-based staff. Whilst much has been done to make local staff feel part of the AfDB, particularly through the benefits package, there remain a number of unresolved issues between local and international staff such as career development and training. Recent moves to attach national sector staff to central departments in Tunis may help address these issues, but is also raising other issues in terms of the dual reporting relationship, equal pay for equal work etc.

124. There have been some clear positive changes in terms of increased delegation to Resident Representatives. However some RRs still wish for more authority and feel they are only given

²¹ Quality of operations at entry (9 management measures), timeliness of loan effectiveness and project start-up (4 measures), speed of implementation of the project (6 measures), and the enhanced supervision of project operations. The APPR 2006 listed 23 immediate measures ('reform activities') to be instituted in the areas of HR, business processes, and budgeting to improve 'portfolio performance'.

authority for 'ritual' activities such as loan signing (which nevertheless does provide an example of a measure enhancing cost-saving and effectiveness, as it means government teams do not have to travel to Tunis any more to sign loan agreements etc).

125. The incentives for staff to go to the field are also weakened by what we see as an unclear career path for FO staff. It has not been demonstrated that a field position is an advantageous career move and thus many staff will prefer to stay in Tunis where they have more visibility and hence perceive bigger chances for promotion.

126. Overall our findings suggest that the AfDB may in fact not yet be getting the full benefits of the HR reforms already enacted as staff performance is at times constrained by low morale. There are cases of where delays in opening of the offices has jeopardised staff morale: where it took too long to recruit and train staff, or send them on orientation courses, or provide them with an equitable benefits package, etc. Such grievances depress staff morale. The effect is a tendency for staff to see the glass half empty, even where compensatory measures have been taken.

127. The AfDB's *business processes* continue to be adapted to accommodate decentralisation. Much of this is work in progress, largely driven by a desire to reduce congestion in Tunis as opposed to the use of country systems in a Paris Declaration sense which may call for more radical reforms. Some relocation of staff and some redistribution of tasks between field and Tunis have taken place, possibly resulting in a decrease in transaction costs.

128. In some cases, responsibility has been delegated to FO staff, but then an additional step has been made to the front end of processes. There is a saving in that it is made easier for central departments, but it is unclear to what extent transaction costs are actually being lowered in Tunis as a result of the FO staff involvement. For example, as regards disbursement, decentralisation has proven initially to be less efficient as a result of the lag (at times not sufficiently well managed) between introduction, implementation and actualisation of systems. Over time our evidence suggests that the disbursement system with a FO front end works well processing what is currently a throughput of relatively small, low value transactions.

6.5 Sustaining Change

129. We found across the Tunis-based staff a growing recognition of the value of the FOs and trust in their capacity. In some cases this has been fostered by the success of initiatives taken by the FO and reflected in the willingness of staff for the FO to take the lead, or be responsible for, various activities that were centrally-led before. Specific examples include negotiating new projects, leading supervision missions, taking responsibility for training and increased local spending limits. These are forms of voluntary rather than mandated decentralisation. They are the product of local judgements of the success of the new kinds of relationships and trust being forged between central departments and the FO.

130. Building trust will be a key factor in sustaining change. Some FOs have recognised trust building as a process that needs to be worked on and will take time. In one case, an FO has developed its own communication strategy for dealing with Tunis, intended to build trust and cooperation between Tunis and the FO. These examples raise the possibility that other mechanisms of trust building may exist and could be used more widely and intentionally. Recognition is also important at an individual level, one respondent commenting that "*pay is secondary to professional satisfaction. The country office is asking me to lead a team with people from Tunis. If the head office thinks I'm capable to lead a team on the ground and come up with a result it gives me more satisfaction*".

131. The pull towards a ‘One Bank’ ethos is strong within the FOs. This dynamic could be more actively embraced and capitalised on by central departments, and is being strengthened by the resolution of contentious issues including employment terms and conditions, for example: the inclusion of FO staff in the AfDB’s pension scheme, inclusion in the health insurance scheme and proposed eligibility for the same education benefits. In turn, this creates a positive environment for the development of cooperative and synergistic working relationships between staff in the FO and in headquarters, allowing new ways of working to be developed.

132. Empowering staff, especially within the FOs, is indispensable for them to play their role fully. The consistency in signals that management conveys is important; FO staff who are more proactive are sometimes perceived as mavericks rather than strong leaders. Wider experience suggests that the conditions for success (of decentralisation) are less dependent on small variations in the decentralisation models but substantially dependent on the management style and culture prevailing in the headquarters of the organisation. A culture of management for results and a decision making process that encourages delegation and rewards taking measured risks are regarded as important pre-requisites for success of decentralisation.

6.6 Conclusions

133. Decentralisation has been held back by weak arrangements for management and coordination, lack of clarity in assigning clear responsibilities across the organisation, and the absence of systematic approaches to monitoring and learning. Weak cascading of objectives and results expectations from AfDB strategic goals to FO operational targets is linked to incomplete measures of performance and weak accountabilities. The platform for a stronger, results-oriented approach to monitoring decentralisation, nested within the wider agency results framework now exists

134. Decentralisation implies considerable changes across the whole organisation. Yet it has not been actively managed as a change process. This would have helped to clarify and communicate the role and scope of decentralisation, where confusion persists within the Bank: is decentralisation solely about the opening of FOs? Or does it concern the whole Bank, through widespread delegation of authority? Similarly, a managed change could have addressed more directly the persisting confusion regarding roles and responsibilities: for example, concerns over the perceived inconsistency between the Delegation of Authority Matrix (responsibility for workstreams) and the Country Team operation (a core element of the AfDB’s matrix working structure).

135. Within this complex of reforms, securing the benefits arising from decentralisation depends not only on the delivery of specific outputs and outcomes, but also that other key assumptions and supporting conditions hold with respect to wider sets of changes arising from internal reforms. The AfDB is not yet getting the full benefit of HR reforms – already enacted and generally well aligned with decentralisation - given some inconsistencies and gaps which serve to undermine the many positives. Changes to business processes are at times driven by a centralising agenda, and are not always open to consideration of the more radical reform agenda that would emerge from a decentralised approach consistent with the aid effectiveness agenda.

136. There is an inevitable and at times uncomfortable tension between on one hand the diversity in local adaptations that decentralisation brings, leading to some unevenness across the AfDB, and efforts on the other hand towards a higher degree of corporate standardisation. Nevertheless, the ‘one AfDB’ ethos is a strong positive force towards which decentralisation has contributed. This provides a good platform for developing new ways of working at the AfDB.

7. Overall Conclusions and Recommendations

137. Decentralisation within the AfDB has evolved over time. It is concerned with a complex, intertwined set of issues, embedded in wider institutional reforms. This makes it a difficult subject for evaluation, the difficulty compounded by two other factors: firstly, the approach envisaged in the Decentralisation Strategy has not yet been fully implemented; and secondly, the limited quality and availability of data for key indicators of progress. Nevertheless, this evaluation has drawn together evidence from a range of sources on which to base operational findings and conclusions, as well as recommendations for consideration. These are summarised below.

7.1 Major Findings

138. The decentralisation process is behind schedule. Whilst nearing completion in terms of the number of FOs opened, there are some significant gaps in terms of the planned FO network operating at full capacity. Much remains to be done to assign sector specialists to the field, increase levels of delegated authority and to improve ICT connectivity.

139. The objectives of the Decentralisation Strategy were clearly expressed and have evolved in line with growing expectations over what decentralisation will deliver for the AfDB. There has not been sufficient clarity on the causal connections through which the objectives are to be achieved, nor a clear 'results framework' providing a comprehensive set of targets against which progress can be assessed and accountability determined.

140. Overall, the objectives of the Decentralisation Strategy are being partially achieved:

- There is clear evidence of change in some important activity areas associated with improving portfolio management through field presence. But this is not yet sufficiently strong nor widespread to deliver quality assured project processes.
- There has been no significant change in the nature of the dialogue between the AfDB and the RMC. The proximity of FOs has brought a change in the frequency and responsiveness of dialogue, which are two important elements in the long term process of building trust. But the dialogue has yet to mature into a more challenging form which could have a more appreciable effect on improving development outcomes.
- Decentralisation is improving the visibility of the AfDB within the national setting and within the donor coordination landscape.
- There has been a minimal effect in terms of the AfDB strengthening its ties with regional economic entities and its links with the private sector and civil society.
- Decentralisation is proving to be a positive factor in the growth of the lending volume of the AfDB, particularly in those countries eligible for ADB funding. The evidence is not sufficiently strong to establish causality and increases are likely to be the result of a combination of factors.

141. The AfDB's effort to establish FOs has been generally well appreciated by external stakeholders and there are strong centres of support for decentralisation, and further decentralisation, within the AfDB, its clients and partners.

142. The final costs for the set-up of the network of FOs are predicted to be close to that originally budgeted for. We expect annual operating costs to be close to double that originally estimated with no or very limited cost savings in Tunis (at the TRA).

143. The evaluation found clear immediate advantages to having some form of field presence in RMCs, as noted above. Decentralisation carries the promise of delivering stronger development results through a higher performing portfolio. But at this stage, the decentralisation process is neither complete nor mature enough to provide evidence of any benefits at scale. At this juncture, we see a case for the AfDB to adapt the existing FO formula (building on the investments already made in the decentralisation process) in a way that could optimise costs and benefits in different client segments.

144. Decentralisation has been an ambitious undertaking and has coincided with an intense period of wider reforms within the AfDB, placing considerable demands on management. Despite considerable efforts, these demands have not been fully met. One key area of weakness has been in maintaining a ‘whole Bank view’ on decentralisation in ensuring consistency and coherence between the decentralisation process and the wider AfDB reforms; and in making sure that small problems do not undermine big gains. Decentralisation has not been actively managed as a change project in itself or as part of a wider change process.

145. The issues confronted by the AfDB in delivering its Decentralisation Strategy are similar to the experiences of other comparable agencies. These institutions found that decentralisation was associated with increased costs; efficiency gains were not automatic; decentralisation was not recognised (nor managed) as a key element of a wider change process; and there was weak monitoring of the process and results of decentralisation.

7.2 Benchmarking

146. The evaluation’s overall finding that decentralisation in the AfDB is having some positive effects is one that mirrors similar findings in other agencies. IFAD’s benchmarking study concluded that *‘the development effectiveness of field presence is viewed positively by all comparator organisations – in spite of numerous challenges and associated costs’*²².

147. Other generalised findings from recent reviews of the evaluation experience of other agencies resonate with the challenges and opportunities that AfDB now faces. For example:

- FOs have a higher success in bringing projects out of the ‘at risk’ category. Field presence from a neighbouring country can work well in supporting project implementation.
- If the benefits of investment in decentralisation are to be realised 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 organisational 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.

²² Ref. Evaluation of IFAD’s Field Presence Pilot Programme July 2007.

- 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 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.

148. 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 decentralisation.

7.3 Main Conclusions

149. The conclusions drawn below are centred on the role of the decentralisation agenda in improving the AfDB's performance and effectiveness.

Relevance

150. The FOs have helped to attune the AfDB better to the country situation and are providing a platform for increasing AfDB's relevance, shaping its role, and in developing local partnerships. The FOs have also strengthened the AfDB's ability to meet specific needs such as speed in MICs and flexibility in Fragile States.

151. Decentralisation is now an integral part of how the AfDB conducts its business. In some form, it is also a given for development agencies observing the commitments set out in the Paris Declaration and Accra Agenda for Action²³. The commitment within the MTS (2008-12) to '*strengthening and accelerating of Bank Group responsiveness to client countries priorities and needs*' also implies some form of country presence.

Effectiveness

152. The hypothesis and expectation is that decentralisation will enhance agency effectiveness. Linked with appropriate delegation of authority, decentralisation should lead to the right decisions being taken by the right staff at the right level and in a timely manner, thus enhancing each project's chances of reaching its development objectives, with portfolios being tightly aligned to needs and the Bank's comparative advantage, through an active and influential dialogue on development policy.

153. While the evaluation findings point towards confirmation of the above hypothesis, there is insufficient hard evidence to prove that the current approach to decentralisation represents the most effective investment of AfDB resources in order to strengthen development results. To try to do this would require a wide ranging and methodologically complex analysis of the portfolios in countries with and without FOs, and with different kinds of field presence.

154. The evaluation found frustration at field level with the limited delegation of authority given to date. There is a sense that the full benefits of decentralisation are not being reaped because too many decisions still require endorsement from Tunis.

²³ Continued moves to be closer to the client are the conclusion, at a general level, of the recent Phase 1 Evaluation of the Implementation of the Paris Declaration. A key finding of which was that "*Among donors, the changes in regulations and practices to delegate greater authority and capacity to field offices have been the most important enabling conditions for successful implementation*".

Efficiency

155. Efficiency could be measured as the extent to which projects have achieved their goals with less input: for example with less or cheaper supervision. However, this also needs data that the AfDB does not currently have.

156. The issue is whether staff are posted where it makes most sense in terms of reduced costs: through reductions in the time and number of steps required to process decisions and approvals; in reducing costs and carbon emissions due to less travel; and reducing overheads by using local staff. On the last point, the AfDB seems to have made no analysis of the financial implications and knowledge management implications of using more national staff. Such an analysis would be a worthwhile complement to the present evaluation.

157. As planned, decentralisation is an additional cost. Set-up costs have kept close to that originally budgeted. Running costs of FOs are proving greater than anticipated. From the available cost data, it has been possible to interpolate – as economies of scale would suggest – that the unit costs of servicing programmes in RMCs through regional office structures are considerably cheaper than establishing FOs in each country (where the unit costs could be as much as double those of the regional office option). However, there is a trade-off in terms of the better communication between AfDB staff and Government staff that a FO presence in-country allows.

Sustainability

158. There is still some distance to travel before the AfDB has a fully staffed and fully functioning network of 25 FOs supported by a coherent set of delegated authorities across and through its management structures. To complete this journey in a way that will provide fully geared field operations and through this allow the full benefits of the current decentralisation model to be realised will place demands on an organisational capacity that already looks stretched in terms of adapting to the multiple demands and high ambition of the MTS (2008-12). This would also require intensifying ongoing changes in the culture of the organisation. Managing such a change will be highly demanding of management resources in the short term. This could lead to a situation where the professional and management cadres of the AfDB give time to internal issues to the point of compromising the leadership position the Bank is currently taking within the region.

Impact

159. The process of decentralisation is still young and the model has not yet been fully implemented, so it is premature to expect results at the outcome and impact levels of the logic model based on the Strategy. However, there are enough positives in the AfDB's recent experience with decentralisation to suggest that the potential for impact does exist. Some of the early changes attributable to decentralisation are being achieved in parts of the AfDB's operations which have previously struggled: notably, in Fragile States. In such cases, small improvements arising from decentralisation are significant and provide something to build on. Decentralisation is also contributing to the corporate goal of increasing the scale and value of AfDB operations in MICs. To maximise the return on continuing investment in the process, the detail of the decentralisation approach going forward needs to be shaped more strongly by the medium term business objectives of the AfDB.

7.4 Moving forward: Recommendations

160. The evaluation suggests that the current approach to decentralisation is delivering some benefits, but the scale of these limited by both the shallowness of decentralisation across the AfDB in terms of delegated authority and the delays in the FO network becoming fully operational.

161. The general environment remains highly supportive of decentralisation. 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 decentralisation within the Bank leadership, and it provides a conventional response to the demands of the Paris Declaration.

162. However, the evaluation brings out concerns over the cost-effectiveness of the current course. The evidence suggests that the benefits arising from decentralisation 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. For example, the Bank is planning to significantly increase its activity and role within fragile states. We conclude that it is in such environments that a suitably geared FO can make the most substantial difference. In contrast, in countries eligible for ADF finance (non-fragile), the current gains that can come through an in-country FO could in future be achieved in other, more cost-effective ways through increasingly harmonised approaches. Moreover, the movement of the Bank away from relatively small development projects to large infrastructure projects, more regional investments and Budget Support interventions will start to reduce the area of operations where FOs in-country do make a distinct difference.

163. We therefore see three broad options for the AfDB in continuing with a decentralised approach:

- (A) Continue on current course and at current pace;
- (B) Continue on current course but with an accelerated push to complete a fully functioning network and associated delegated authority;
- (C) Adjust the course to address more closely the varied needs of different client segments²⁴.

164. The evaluation recommends that consideration should be given to option (C) on the basis that in the longer term this will provide a more optimal set of benefits for the AfDB and its stakeholders than the present course looks set to deliver.

165. 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, we see potential advantages of graduation to a regional office model, with substantial regional offices in locations closely aligned to the focal points of the regional economic commissions and the AfDB's multi-lateral partners. Such regional offices would each service several NPO outposts. Co-location in regional centres could facilitate more selective and focused investment in strengthening strategic partnerships. Such regional offices could also serve as 'hubs' providing a base from which sector specialists and corporate service providers (in finance, procurement, ICT and human resource management) could support small NPOs.

166. 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 business front

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 programs (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).

closely linked to capacity at the centre (currently in Tunis) to manage large multi-partner transactions.

167. This possible way forward is illustrated in Table 6 below. The overarching consideration is how a more carefully tailored approach to decentralisation, aligned with the business goals of AfDB, can be a more powerful force in delivering on aid effectiveness commitments.

Table 6: Decentralisation 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 (large/ small) 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 other agencies)	Regional integration Aid effectiveness Delivering a high quality portfolio of large scale national/ multi-national projects
ADB eligible	Small highly professional and agile 'business unit' (adapted NPO)	Growing ADB lending (public and private) Facilitating Public Private Partnerships

168. **Recommendation 1: Develop Option C through rationalisation and expansion of the existing FO network.** A customised, 'business-driven' approach to FOs 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). 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. The FOs will play different roles reflecting the different emphasis being given to specific corporate objectives and the strategic positioning of the AfDB at the continental, 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.

169. **Recommendation 2: Develop clear plans for using decentralisation (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.

170. We recognise that this course will be more demanding as a process to plan and manage (than Option A or B) and that to date the decentralisation process has suffered from structural weaknesses in leadership and management. In order to realise the potential benefits from decentralisation the change both in the FOs and in Tunis must be actively managed. Measurement of both the process and the effects of decentralisation needs to feed more strongly into management information and decision making.

171. **Recommendation 3:** *Establish a clear structure for management of the decentralisation 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 decentralisation process itself. There is scope for establishing an overall coordination unit, with responsibility for chasing progress within an adequately resourced change management programme.

172. **Recommendation 4:** *Improve measurement of decentralisation and strengthen learning and accountability by developing a clear results framework* for a continuing decentralisation 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.