AFRICAN DEVELOPMENT BANK

AFRICAN DEVELOPMENT FUND

ENHANCED DECENTRALISATION STRATEGY

Strengthening Country Focus and Client Responsiveness through a Tailored Approach

June 2006

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LIST OF ACRONYMS AND ABBREVIATIONS

AsDB	**Asian Development Bank**
CDS	**Current Decentralization Strategy**
CM	**Country Manager**
CO	**Country Office**
CPO	**Country Program Officer**
CRR	**Country Resident Representative**
CSP	**Country Strategy Paper**
EDS	**Enhanced Decentralization Strategy**
FY	**Fiscal Year**
HQ	**Headquarters**
HR	**Human Resources**
IADB	**Inter-American Development Bank**
ICB	**International Competitive Bidding**
LIC	**Limited Competitive Bidding**
MDG	**Millennium Development Goal**
NCB	**National Competitive Bidding**
NSH	**National Shopping**
OIVP	**Vice Presidency, Infrastructure, Private Sector & Regional Integration**
OpsCom	**Operations Committee**
ORVP	**Vice Presidency, Country & Regional Programs & Policy**
OSVP	**Vice Presidency, Sector Operations**
PL	**Professional Level Staff**
PRSP	**Poverty Reduction Strategy Paper**
PSO	**Private Sector Officer**
RD	**Regional Department**
RFP	**Request for Proposals**
RMC	**Regional Member Country**
RO	**Regional Office**
SPN	**Specific Procurement Notice**
TFIR	**Task Force on Institutional Reforms**
TM	**Task Manager**
UA	**Unit of Account**
VP	**Vice President (ial)**

Executive Summary

1. There have been recent significant institutional investments in improving the quality of Bank Group operations. Most notable of these investments are the institutional reforms approved by the Board of Directors on April 7, 2006, which involved the reformation of the operations complexes and the Office of the Chief Economist. The main thrust of this exercise was to assure enhanced operational effectiveness through country focus, client responsiveness as well as systemized knowledge generation, dissemination and application. The desired objectives of the reformation of the operations complexes have necessitated a review of the Bank Group's decentralization strategy, which is an important vehicle for client orientation and operations delivery.

2. Management made an undertaking to the Board of Directors, in the context of the discussions on the institutional reforms, to submit for Board consideration a decentralization strategy in line with the objectives of the institutional reform. This memorandum proposes an Enhanced Decentralization Strategy (EDS) for the Bank Group in fulfillment of Management's commitment

3. The Boards of Directors approved the current Decentralization Strategy (CDS) on September 8, 2004. The salient features of the current decentralization strategy include the following (i) opening of 25 field offices in regional member countries (ii) enhancing projects and programs implementation through appropriate technical expertise on loan effectiveness, procurement and disbursements in field offices and (iii) improving dialogue with the borrowing countries on policy and strategy as well as with local partners, including regional organizations, on development issues. Accordingly, there was emphasis on the role of field offices as facilitators of Bank Group project execution and portfolio management. Authority pertaining to specific procurement and disbursement actions was delegated to field office staff

4. As at today, out of the 25 offices, 14 offices have been opened and are operational at various levels. These are: Egypt, Ethiopia, Gabon, Nigeria, Mozambique, Senegal, Tanzania, Uganda, Tunisia, Madagascar, Mali, Morocco, Rwanda and Burkina Faso. Field offices have, upon becoming operational, generally contributed substantially to the Bank Group's country dialogue, and have assisted in project preparation, appraisal, supervision, country strategy paper process and, carried out some facilitation tasks related to procurement and disbursement. However, standardized staffing, which was implemented despite the provision for flexibility contained in the strategy, the lack of adequate delegation of authority, weak integration of the offices with the Bank's information management systems, and multiple reporting lines, have reduced the overall effectiveness of field offices.

5. The experience of other institutions shows that there is a strong movement towards decentralization, although actual models differ from one institution to the other. Decentralization is a complex and long term process, which requires long-term commitment, and proper and careful planning. Considerations of a whole range of issues are important to minimize operational risks.

6. Based on the above lessons, this report proposes an Enhanced Decentralisation Strategy (EDS) for the Bank Group. The decentralization model proposed under the EDS is anchored on a tailored approach to Bank Group representation in RMCs, in

which country circumstances and the Bank Group's country strategy will be the key drivers in determining the profile of the representation in a given RMC. Under EDS the field offices' staff composition will change significantly. The staffing of each field office will be tailored to provide the office with the right skill mix it requires to adequately support the implementation of the Bank Group's strategy in the country. Adequate delegation of authority will also be provided to field offices in the context of appropriate safeguards. In order to appropriately strengthen the role of the organizational unit head of the field office, in supporting the implementation of the Bank Group's strategy, the position of Country Resident Representative will be transformed into the Country Manager position.

7. As highlighted in the Board Document ADB/BD/WP/2006/18/Rev.1, which contained the proposals for the reformation of the operations complexes: "*following a phase of consolidating the changes in structure, processes and culture, the proposed Regional Departments will also be moved to regional offices, initially on a pilot basis. This will reinforce Management's goal of increasing country focus, by improving country knowledge and understanding, promoting dialogue, communication and visibility, and enabling closer partnerships with regional economic entities.*" Preparations for the move of two pilot regional departments (provisionally South 2 and West 2, to move to host country offices already established in Mozambique and Senegal respectively), will take some time, but will begin immediately after Board approval of this paper.

8. The effective implementation of the recommendations of the Task Force of Institutional Reforms (TFIR) Human resources Working Group, which were captured in the Human Resources Strategy of the Bank, is essential for the successful implementation of the enhanced decentralization strategy. There is also the need to improve the attractiveness of decentralized postings for Bank staff, both in terms of compensation and benefits and in areas such as personal security.

9. In terms of budgetary implications, the EDS costs are based on the CDS cost assumptions and indicative estimates for new costs that result from the TFIR proposals. The implementation of the EDS would be subject to (i) the assessment by the Operations Committee (OpsCom) of Bank Group's strategic priorities, (ii) the budgetary limits defined under the CDS and the annual budget, and (iii) implementation pace of the new structure of the Bank Group, which the Boards of Directors approved on April 7, 2006. New office opening/transformation would have to be considered within the budget of the relevant year and, therefore, subject to Board approval.

10. The few remaining risks to the decentralization relate to (i) dilution of the Bank Group's identity, (ii) implementation of adequate safeguards and, (iii) quality control of operational products. Most of these risks are known risks, for which the Bank has appropriate mitigating measures or procedures. Since the Bank Group restarted the process of opening field offices in 1999,, it has accumulated valuable experience.

11. Management, in the context of the institutional reforms, identified the need to refine the Bank Group's decentralization strategy consistent with the objectives of ensuring country focus in the Bank's operations as well as development effectiveness. Furthermore, Management is conscious of the need to strengthen the Bank Group's support to Regional Member Countries (RMCs) as they implement their Poverty Reduction Strategy Papers (PRSPs) and strive to achieve the Millennium

Development Goals (MDGs). This Memorandum has proposed an Enhanced Decentralization Strategy, which aims to address weaknesses in the current strategy as identified by the TFIR. The basic framework of the proposed EDS is a tailored approach to the Bank Group's presence in a RMC, in which the mandate and staff profiles of a field office will be determined by the countries' priorities and needs as reflected in the Bank Group's country strategy for the country.

12 *Recommendation*: The Boards of Directors are invited to approve:

(i) The Enhanced Decentralization Strategy, as proposed in this Memorandum;

(ii) The phased implementation involving the reformation of the existing field offices consistent with the features of the Enhanced Decentralization Strategy, in particular the proposed tailored Country Office and Regional Office models;

(iii) In addition, the opening of the offices previously approved by the Boards, in accordance with the enhanced strategy; and

(iv) That upon completion of Phase I of the implementation of the enhanced strategy, the Bank will have twenty-three (23) Country Offices and two (2) Regional Offices each of which would be fully operational, in the host countries approved in the context of the current decentralization strategy;

13 The Boards of Directors are also invited to take note of the following initiatives which Management will undertake following the approval of the above-mentioned recommendations:

(i) Before the end of this year (2006) Management will present to the Boards a roll-out plan for the reformation, consistent with the enhanced strategy, of existing offices as well as the opening of the offices in the host countries previously approved by the Boards;

(ii) Management will also present to the Boards the indicators for measuring the effectiveness of the Bank Group in countries with a field office; and

(iii) The indicative budgetary and staffing implications of the Enhanced Decentralization Strategy, which will be reflected in the budget of the relevant years.

I. INTRODUCTION

1.1 There have been recent significant institutional investments in improving the quality of Bank Group operations. Most notable of these investments are the institutional reforms approved by the Board of Directors on April 7, 2006, which involved the reformation of the operations complexes and the Office of the Chief Economist[1]. It will be recalled that the main thrust of this exercise was to assure enhanced operational effectiveness through country focus, client responsiveness as well as systemized knowledge generation, dissemination and application. The desired objectives of the reformation of the operations complexes have necessitated a review of the Bank Group's decentralization strategy, which is an important vehicle for client orientation and operations delivery.

1.2 In this connection, it will be recalled that Management made an undertaken to the Board of Directors, in the context of the discussions on the institutional reforms to submit for Board consideration a fine-tuned decentralization strategy responsive to the desired objectives of the institutional reform. This memorandum proposes an Enhanced Decentralization Strategy (EDS) for the Bank Group in fulfillment of Management's commitment.[2]

1.3 The Memorandum is organized in nine sections, following this introduction. Section II presents the current decentralization strategy and the lessons learned, drawing from the work of the Task Force on Institutional Reforms (TFIR) and other assessments of field office performance. Section III discusses the decentralization experience of similar institutions. Section IV presents the key features of the proposed EDS, which is anchored on the concept of a tailored approach, whereby country priorities and needs play a key role in determining the scope and type of Bank Group presence in a country. Section V discusses the human resources management implications of the proposed EDS. Section VI discusses the measures to enhance the attractiveness of field offices postings. Section VII discusses the budgetary implications of the EDS. Section VIII presents the related implementation arrangements. Section IX discusses the risks and mitigating measures and, Section X concludes with the recommendations for consideration by the Boards of Directors.

[1] See Resolution B/BD/2006/07.

[2] Document ADB/BD/WP/2006/18/Rev.1 entitled Enhancing the Effectiveness of the Bank - Proposals for the Reform of the Operations Complexes, Strengthening of the Office of the Chief Economist, and Enhancing Human Resources Management and Business Process. Page 15, paragraph 5.3.3

II. CURRENT DECENTRALIZATION STRATEGY AND LESSONS LEARNED

2.1 Mandate of Field Offices

2.1.1 The Boards of Directors approved the current Decentralization Strategy (CDS) on September 8, 2004.[3] This approval of the CDS represented the culmination of a process, which started in 1999, and received significant encouragement from the Governors through the Governors' Consultative Committee, which at its meeting of December 17, 2002, requested the Boards of Directors and Management to 'study the possibility of accelerated institutional decentralization' in the wake of the political crisis in the host country of the Bank's Headquarters. The salient primary features of the current decentralization strategy are as follows:

- Opening of 25 field offices in Regional Member Countries[4]
- Enhancing projects and programs implementation through appropriate technical expertise on loan effectiveness, procurement and disbursements in field offices
- Improving dialogue with the borrowing countries on policy and strategy as well as with local partners, including regional organizations, on development issues.

2.1.2 Accordingly, there was emphasis on the role of field offices as facilitators of Bank Group project execution and portfolio management. In certain countries, the field offices would have a widened role, which includes developing the Bank Group's portfolio. While the "national office" was the primary mode of Bank representation in a RMC, the strategy also provided for the establishment of regional offices to serve the host country and the other countries assigned to it.

2.2 Staffing and Other Logistics

The minimum staffing level envisaged for any country office under the CDS two (2) internationally-recruited staff members, namely, the Country Resident Representative (CRR) and the Country Operations Officer (COO), both transferred from the headquarters. Depending on the Bank's portfolio in the country, this team of international staff be complemented by the country economist, where adequately justified, who would also be transferred to the country office. The offices also have certain locally recruited staff including, sector specialists, and support staff. Provision was also been made to equip field offices with adequate information and communication technology facilities, including access to SAP and DARMS, videoconferencing facilities to facilitate their operations. Existing offices are at different stages in terms of being equipped and staffed.

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[3] Document ADB/BD/WP/2004/72/Rev.1 - ADF/BD/WP/2004/84/Rev.1 dated June 21, 2004) and the related Resolution B/BD/2004/18-F/BD/2004, approved on September 8, 2004.

[4] These countries are Algeria, Angola, Burkina-Faso, Cameroon, Chad, Democratic Republic of Congo, Ghana, Gabon, Egypt, Ethiopia, Kenya, Madagascar, Mali, Malawi, Morocco, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, Sudan, Tanzania, Tunisia, Uganda and, Zambia.

2.3 Delegation of Authority

2.3.1 Authority pertaining to specific procurement and disbursement actions was delegated to field office staff. With respect to procurement actions, the delegation of authority was to be implemented in two stages as follows[5]: In the first stage:

- All Specific Procurement Notices (SPN);
- Standard Bidding Documents (BD) for Goods and Works under ICB (international competitive bidding), NCB (national competitive bidding), LIC (limited international competition), ISH (international shopping) and NSH (national shopping) of value equal to or less than UA 50,000;
- Standard Requests for Proposals (RFP) for Consultancy Services of value equal to or less than UA 50,000;

In the second stage, the approval levels proposed are as follows:

- All Specific Procurement Notices (SPN);
- All Standard Bidding Documents (BD) for Goods and Works under ICB (international competitive bidding), NCB (national competitive bidding), LIC (limited international competition), ISH (international shopping) and NSH (national shopping);
- All Standard Requests for Proposals (RFP) for Consultancy Services;
- Borrowers' Tender Evaluation Reports and recommendations for contract award for Goods and Works and Evaluation Reports on Technical and Financial Proposals for Consultancy Services of value equal to or less than UA 50,000;

2.3.2 Finally, all procurement under ICB, LIC and NCB involving non-standard bidding documents, all direct procurement and all bids requiring prequalification shall be approved by HQs.

2.3.3 On disbursement, field offices were to pre-screen all disbursement applications to ensure that only eligible and error free applications were sent to Headquarters.

2.4 Lessons Learned

2.4.1 As at today, out of the 25 offices, 14 offices have been opened and operational at various levels. These are: Burkina-Faso, Egypt, Ethiopia, Gabon, Madagascar, Mali, Morocco, Mozambique, Nigeria, Rwanda, Senegal, Tanzania, Tunisia[6] and Uganda. Field offices have, upon becoming operational, generally contributed

[5] See Presidential Directive 02/2005 of 7 July 2005.

[6] The Boards of Directors approved the establishment of a country office in Tunisia by Resolution B/BD/2002/28-F/BD/2002/26 dated 13 November 2002. However, before negotiation of the conditions for the establishment of this office with the Tunisian Authorities could commence, the Bank temporarily relocated its operations to its Temporary Relocation Agency ("TRA") in Tunis in February 2003. The TRA was established pursuant to an agreement concluded on 17 April 2002 between the Bank, the Fund and the Government of Tunisia (the "TRA Agreement") and the Bank Group's presence in Tunisia is presently governed by the terms of the TRA Agreement.

substantially to the Bank Group's country dialogue, and have assisted in project preparation, appraisal, supervision, country strategy paper process and, carried out some facilitation tasks related to procurement and disbursement. However, standardized staffing, which was implemented despite the provision for flexibility contained in the strategy, the lack of adequate delegation of authority, weak integration of the offices with the Bank's information management systems and, multiple reporting lines, have reduced the overall effectiveness of field offices (Annex I provides the staffing structure of field offices under the CDS).

2.4.2 Some of the lessons from the Bank's experience so far, therefore, include:

- decentralization cannot be effectively implemented without real delegation of authority and empowerment of field offices to improve dialogue, coordination, portfolio management, and responsiveness
- staffing must be adapted to country strategies and the portfolio
- the roles and responsibilities of field offices need to be well defined
- existing processes and procedures need revision to facilitate greater effectiveness, speed and client responsiveness
- reporting lines and communication flows must be well defined
- Field offices need to have adequate IT infrastructure
- There is need to enhance the attractiveness of field offices for international staff and local staff

III. EXPERIENCE OF SIMILAR INSTITUTIONS AND LESSONS LEARNED

3.1 Decentralization Models Implemented

3.1.1 Other multilateral development banks, including the World Bank, the Inter-American Development Bank (IADB) and the Asian Development Bank (AsDB) have implemented varying models of decentralization of opreations. The main objectives of their decentralization strategies has been improving knowledge of country conditions and enhancing the quality of service delivery. The main differences in the models implemented by the institutions relate to project execution. In this regard, the AsDB has not decentralized its procurement and disbursement activities, while the IADB has fully decentralized procurements and disbursements activities to the field.

3.1.2 At the World Bank, about 73 percent of Country Directors were located in COs in Fiscal year (FY) 2005 and a quarter of the core work program is currently task-managed in COs. While complete system-generated data are not available of delegation of procurement authority, data from the last update to the Board suggest that procurement sign-off delegated to COs increased from 46 percent in FY2001 to 61 percent in FY2003. Likewise, 15% of disbursement authority is currently handled by the field offices. The main features of these models are summarized in Table 1 below. A more detailed analysis of these experiences is provided in Annex III.

Table 1 – Main characteristics

	World Bank (Africa Region)	**Asian Development Bank (AsDB)**	**Inter-American Development Bank (IADB)**
1. Number of offices	33	21	26
2. Number of International staff	110	48	1-2 per office, but significant number of local staff
3. Key Functions	Dialogue, supervision, procurement, disbursement and financial management	Supervision, economic reporting, CSP	Project execution

3.2 Lessons for the Bank

Several lessons can be drawn from the experience of other institutions, as follows:

- There is a clear movement towards decentralization, although actual models differ from one institution to the other. A common characteristic though is that decentralization relies more on country offices rather than on regional offices

- Moving towards more decentralization is a strategic decision and cannot be assessed from a short term financial perspective, but decentralization is usually perceived as costly

- Decentralization is a complex and long term process which requires long-term commitment, and proper and careful planning

- Considerations of a whole range of issues are important to minimize operational risks. These are mainly related to human resources policies, delegation of authorities, safeguards and organizational culture

IV. THE ENHANCED DECENTRALIZATION STRATEGY: TOWARDS A TAILORED APPROACH TO BANK GROUP'S COUNTRY REPRESENTATION

4.1 Guiding Principles

4.1.1 With renewed emphasis on achieving development effectiveness, pro-active management of the portfolio and the need to go beyond government circles and engage with all stakeholders in a given country, decisions concerning countries are increasingly being made by development partners at the country level. Drawing from this trend, as well as management's efforts to enhance the effectiveness of the Bank Group's operations, the proposed EDS builds on the following guiding principles:

- greater empowerment and delegation of authority
- optimizing field office staffing levels and skills-mix based on Bank Group's country strategy, priorities, and size and nature of the portfolio

- effective field office contribution to portfolio management and project implementation
- strong monitoring and auditing mechanisms to ensure the integrity of procedures and processes.

4.2 Variable Profile of Country Offices under the EDS

4.2.1 *Bank Group Country Strategy and Program: A Key Determinant of Field Office Profile*: Based on these principles, the decentralization model proposed under the EDS is anchored on a tailored approach to Bank Group representation in RMCs, in which country circumstances and the Bank Group's country strategy will be the key drivers in determining the profile of the representation in a given RMC. In this context, field offices will play a key role in supporting the implementation of the Bank Group's strategy and program in the country. This will include contributing substantially towards improving the Bank Group's dialogue with RMCs in line with the priorities identified in the country strategy paper and strengthening project and program implementation. By virtue of their proximity to the client, field offices contribute towards strengthening the Bank Group's responsiveness to the client countries' priorities and needs.

4.2.2 The new decentralization strategy will delegate greater authority to field offices. In terms of supervision**,** field offices will establish a dialogue with project execution agencies and the relevant ministries in order to identify problems that arise in the execution of Bank-financed projects. The close follow-up of projects by field offices will enhance the likelihood that the objectives of the projects are achieved and development targets are fulfilled. Field offices will systematically undertake more frequent portfolio reviews, drive portfolio clean-up efforts and reinforce dialogue with RMCs on project governance (accounting and fiduciary responsibilities).

4.2.3 As highlighted in the Board Document ADB/BD/WP/2006/18/Rev.1, which contained the proposals for the reformation of the operations complexes: "*following a phase of consolidating the changes in structure, processes and culture, the proposed Regional Departments will also be moved to regional offices, initially on a pilot basis. This will reinforce Management's goal of increasing country focus, by improving country knowledge and understanding, promoting dialogue, communication and visibility, and enabling closer partnerships with regional economic entities.*"

4.2.4 In line with the Board approval, it is proposed that two regional departments, namely ORWB and ORSB, be moved to offices already established in Senegal and Mozambique respectively. These offices will perform the full responsibilities assigned to the regional department under the new structure for the countries covered by these departments[7]. In establishing these two offices, due account will be taken to staffing implications in country offices already established in these two regions (countries offices supported by a nearby regional office will have lower staffing levels). Preparations for the move of these two pilot regional departments will take some time, but will begin immediately after Board approval of this paper.

[7] ORWB is responsible for Cap Verde, Gambia Guinea, Guinea-Bissau, Liberia, Mali, Sao Tomé & Principe, Senegal, and Sierra –Leone. ORSB is responsible for Botswana, Lesotho, Namibia, South Africa, Swaziland, and Zimbabwe.

4.2.5 *The Case of Fragile States*: These are high-risk RMCs with particularly weak policies and institutions, and where the traditional aids programs do not seem to work well. Fragile states account for roughly 20% of the population of the Continent. The Bank Group will, therefore, have to ensure that it is adequately prepared to provide assistance to these fragile states. In such states, the Bank Group will increasingly be called upon to provide emergency assistance to limit human and physical harm, provide assistance rehabilitation of critical sectors damaged by conflicts and promote constructive dialogue with the international community to ensure a rapid re-engagement in the country. This assistance will be critical to enable the transition from 'post conflict' situation to 'sustainable development'. A new strategic framework on the Bank's approach to Fragile States is being developed. In this context, whenever necessary, field offices will be equipped to support to the Bank Group's programs in a fragile state. Field offices in fragile states may have particular staffing and equipment needs.

4.3. Staffing of Field Offices

4.3.1 *Staff Profile*: Under EDS the field offices' staff composition will change significantly. The staffing of each field office will be tailored to provide the office with the right skills mix it requires to adequately support the implementation of the Bank Group's strategy in the country. The offices will be properly empowered by an adequate delegation of authority. More senior and international PL staff, including sector specialists from the Vice-Presidency – Sector Operations (OSVP) and Vice-Presidency Infrastructure, Private Sector and Regional Integration (OIVP) will be transferred to the field offices as the need arises depending on the priorities of the strategy. Sector staff in field offices will have dual reporting lines since they will report to the Head of the field office and to their relevant sector supervisor their Vice-Presidency of origin at Headquarters. Sector specialists are expected to play a key role in enhancing aid effectiveness by improving project's implementation rates and country sector dialogue. With a view to adequately empowering field offices, field offices staff will include experienced procurement and disbursement officers (See Annex II.B).

4.3.2 *Country Manager Position:* In order to appropriately strengthen the role of the organizational unit head of the field office, in supporting the implementation of the Bank Group's strategy, the position of Country Resident Representative will be transformed into the Country Manager position. The Country Manager will be fully involved in managing the Bank Group's strategy and program at the country level.

4.3.3 The offices' size and staff skill mix will, therefore, take into consideration the country's specificities and the Bank's strategy and program in the Country. It is proposed that the EDS office's staffing requirements be based on the priorities of the Bank Group's country strategy for the country and the portfolio taking into account its expected growth.

4.3.4 The proposed EDS staffing requirements reflects (i) the new structure approved by the Boards of Directors, and (ii) a tailored approach per office taking into consideration the country's specificities. The following table gives an indication of the staffing requirements under the EDS, based on the above criteria. It also compares the staff requirements against the staffing of field offices under the CDS.

Table 2
Field Presence Comparison

CDS: Country Offices		EDS	CO	RO
Res Rep	1	**Regional Director**	-	1
		Country Manager	1	-
		Economist/Lead Econ	-	1
Op Officers	1	**CPO****	1	2
Op Assistant	2	Op Officer	2	2
		Op Assistant	1	5
		Legal*	-	1
Local PL	3-4	**Econ TM***	Variable based on # and amount of proj. per country	
		Agri&Soc TM*		
		Infra TM*		
		PSO*		
		Cross Cutting Spec.	-	2
Other Local	6-7	Other Local	5	8

Main Goals:
- To enable the ADB with a more coordinated, effective and country focus structure
- To improve proj. implementation & country dialogue by decentralasing TMs to the field
- To embody new decentralization policy with enhanced delegation of authority to CO/RO
- To create a knowledge based institution

Bold - Intl Positions
Not Bold - Local Positions
* Intl or local positions based on a 25%/75% breakdown per office
** Only for Offices with large portfolio CPO will coexist with CM

4.3.5 Based on these preliminary estimates for 23 current Country Offices and 2 Regional Offices (Senegal and Mozambique) staffing implications are as follows. Regional Departments would be staffed with 300 positions being 39 of them placed at HQs. Local staff exclusively under Regional Departments would amount to 218. Regional Departments would have additionally, under dual reporting line, 155 staff from both OSVP and OIVP, being 94 of them local professional staff. Regional Offices will have one position for a lawyer from the legal department. Annex II.A details for Regional Departments, Country Offices and Regional Offices, the EDS indicative staffing requirements. Again it should be stressed the flexibility of the model regarding to staff allocations. The model indicatively assumes a number of international and local staff but it is up to the Regional Departments to decide the exact breakdown if within the given budget. According to the CDS estimates the cost of four local sector specialists is equivalent to one international sector specialist transferred from HQ.

4.4 Responsibility for Decentralization Decisions

4.4.1 The decentralization roll-out will be driven by the Regional Departments under Vice-President, Country and Regional Programmes (ORVP) based on the Bank's country strategic priorities. Although this paper proposes an indicative scenario for Country Office (CO)/Regional Office (RO) set up and staff allocation per office, the precise staffing requirements per office and respective timeframe will be proposed by the Regional Departments and endorsed by the new Operations Committee (OpsCom) established under the new structure. Existing offices will continue to operate under the CDS until the Regional Departments in ORVP initiate the process of adjusting their profile to better reflect the tailored approach of the EDS.

4.4.2 The Permanent Committee of Field Office (PECOF) will continue to be the focal entity responsible for field office operationalization. However, its operational links with the operations complex will be strengthened for better coordination by: (i) defining the responsibilities of the operations complex in articulating the profile of the relevant office as well as the timing of that decision, (ii) defining the responsibilities of corporate management complex and GECL in ensuring the availability of the required logistic and other facilities.

4.5 Delegation of Authority to Field Offices

4.5.1 The current delegation of authority thresholds on disbursement and procurement are low. The procurement threshold of UA 50,000 represents 33% of the contracts in number and only 2% in value. As for disbursements, the threshold of UA 100,000 represents 70% of applications in number and only 6% in value. For some countries, especially ADB countries, or for some projects, like infrastructure projects, all procurement and disbursement are above those thresholds.

4.5.2 Before the current decentralization strategy, all approvals of procurement documents and disbursement applications were centralized at Headquarters. Procurement documents were approved by Operations division managers at Headquarters irrespective of the amount with a few exceptions[8]. Disbursement applications were approved by FFCO.3 at Headquarters (under UA 100,000 by the Disbursement Officer, under UA 1,000,000 by the Manager FFCO.3, and above UA 1,000,000 by the Director FFCO.3). Under the EDS, the levels of authorities currently delegated to operations Divisions Managers and Directors will, in principle, be transferred to Country Managers and Regional Directors in Regional Offices. While these authorities relate to country operations and loan administration related matters as reflected in the Bank's delegation of authorities manual, the "in situ" advantage of these offices would be the predominant determinant in defining future levels of authorities to be delegated to them. The Regional Offices will be staffed with procurement and legal officers. Any further changes, resulting from the review of delegation of authority and business processes underway as part of the Bank's reforms, would also be applied to staff serving in field offices.

4.5.3 When the country office is fully operational (IT equipment set up, staff at post and trained) and demonstrates its capacity to handle procurement and disbursement applications, the Country Manager may request the Regional Director to approve a phased increase in approval authority up to UA 2 million for standard procurement and disbursement applications. Concerning procurement, that threshold represents 96% of contracts approved in number and 45% in value. Concerning disbursements, that threshold represents 98% of applications in number and 32% in value. Procurement and disbursement above the threshold, as well as non-standard procurement, will be approved by the Director of the Regional Office or the Regional Department at Headquarters.

4.6 Related Safeguards for the Implementation of the EDS

[8] Exceptions are: a) non-standard documents are used by the Borrower; b) procedure requires pre-qualification; c) disagreement between the Bank and the Borrower; d) Evaluation Committee cannot reach a consensus. In such cases, the Regional Director approves after consultation with PPRU / GECL.

4.6.1 The increased delegation of authority will be administered within a control framework including the following:

4.6.1.1 *<u>Clear Definition of Functions, Responsibilities and Reporting Lines</u>*: The functions, responsibilities and reporting lines of field offices will be clearly defined to facilitate the evaluation of the performance of the Bank Group in countries with a field office offices as well as to ensure accountability. The clarity of function of each office, based on the dynamic EDS model, will facilitate the identification of appropriate indicators to measure the effectiveness of each office. Furthermore, the new country-focused structure of the operations complex will ensure distinct reporting lines, for purposes of accountability as well as effectiveness of communications. With respect to sector experts that are assigned to field offices. These experts would have dual reporting lines both to the Country Manager as well as a Lead Sector Expert at the Headquarters. Technical reporting lines would be maintained for such experts to ensure sector coherence, and application of sector knowledge. All such technical communication would, however, be copied to the Country Manager, to ensure that she/he is current on all the issues pertaining to the country as well as the portfolio.

4.6.1.2 *<u>Monitoring Mechanisms</u>*: Given the proposed increase in delegated authority to the field offices to accelerate client responsiveness by eliminating multiple and hierarchical reviews of requests, Management will increase ex-post reviews of decisions, on the basis of the background documentation supporting the decision. In this regard, it should be noted that such reviews will primarily be conducted for purposes of accountability. The Office of the Auditor General will also schedule regular audits of each office as well as random audit checks of the books.

4.6.1.3 *<u>IT and Communications Certification</u>*: The increase in delegated authority will also be accompanied by appropriate IT and communications facilities to ensure that decisions are taken on the basis of adequate information. In this regard, each office will be equipped in line with the delegated authority to ensure that the office has access to the data or other information available at the Headquarters and required for effective decision-making. In this regard, unlike the current decentralization strategy, the requisite IT and communications facilities and required accessibility to data, commensurate with the level of delegation of authority will be clearly identified and each office certified as they attain the appropriate level of IT and communications infrastructure. In addition to supporting decision-making in the field, the IT and communications facilities will ensure that field offices remain an integral part of the Bank's system and are not cut-off as a result of poor IT and communications infrastructure. In this regard, country offices will be able to participate *via* satellite in departmental, regional and VP complex meetings. Furthermore, the infrastructure should allow for proper monitoring of activities from Headquarters or the regional office, as appropriate.

4.6.1.4 *<u>Knowledge of the Bank's Rules, Procedures and Processes</u>*: Management will also ensure that Staff posted to field offices are knowledgeable of the Bank's rules, procedures and processes. In addition, such staff must have attended an orientation program to affirm their knowledge of the Bank's rules and processes, and to better prepare them for working on the field. Furthermore, this knowledge will be continually updated as changes are made to the applicable rules. Periodic disclosures will be required from field office staff and their counterparts in the Headquarters to confirm compliance with applicable Bank rules. Strict maximum field office posting duration will be applied by the Bank to ensure that international staff assigned to the field offices are not left in the field for an over-extended period.

4.6.1.5 *Procurement and Disbursement Staff*: The Staff members who will be responsible for taking procurement or disbursement related action in field offices will always be supervised by international staff posted from Headquarters. This safeguard will further ensure that action is being taken by staff members who are familiar with the applicable rules of the Bank and have a high level of engagement with the Bank. In addition, international staff members will be rotated consistent with the maximum field office posting duration or even less as an additional safeguard. Management will also ensure that these staff members receive continuous complementary training for validation purposes. Furthermore, to ensure adequate knowledge of the procurement rules and procedures of the Bank as well as best practices, Directors and Managers, will be gradually required to be accredited by the Procurement and Financial Management Unit (ORPU), under its new procurement accreditation mechanism scheme.

4.6.1.6 *Institutional Capacity*: Notably, Management recognizes that the EDS, with the related increased delegation of authority will be supported by the Bank's general institutional framework. In this regard, the Bank's institutional capacity to support greater delegated authority to field offices and staff, in general, has increased significantly to acceptable levels. In particular, the Board of Directors recently approved the strengthening of the Audit function in the Bank with the establishment of a fully-fledged investigative anti-corruption and anti-fraud function as well as a focused internal audit function. Furthermore, the Bank, for the first time has established a project financial management function to review, *inter alia*, the financial management structures and procedures for projects. The Board of Directors also recently established the Independent Review Mechanism, for the purpose of better assuring compliance with Bank policy and procedures by creating a mechanism for the purpose of empowering stakeholders to hold the Bank accountable. The Board of Directors is also considering a Whistleblower program, which is expected to be approved and operational this year. In connection with procurement matters, it will be recalled that the Bank has a Procurement Review Committee responsible for ensuring that the Rules of Procurement are correctly applied with the aim of increasing transparency in the procurement of goods, works, and services in Bank Group financed projects.

4.6.2 All of the above-mentioned, together with Bank staff's heightened consciousness of issues of transparency, accountability, and compliance with applicable rules and procedures provide additional institutional safeguards for the implementation of the EDS.

V. HUMAN RESOURCES POLICY ISSUES

5.1 The effective implementation of the recommendations of the TFIR Human Resources Working Group, which were captured in the Human Resources of the Bank Group, is essential for the successful implementation of the EDS. Of particular importance are those proposals in the Human Resources strategy relating to: (i) the job descriptions and skills/competencies needed for field offices; (ii) career management of international field office staff, including reintegration into head quarters; (iii) suitable benefits package for international and local staff; and (iv) encouraging rotation to the field offices as a career development tool, (v) the operation of the PSA scheme. Above all, careers in the Bank will follow a new path, with significant periods spent away from Headquarters, and a good track record in Country and Regional offices will be a significant factor in terms of career advancement, particularly for staff in the Operations complexes.

5.2 **Career Management, Reintegration and Dual Career Path.** In certain Country Offices, depending on the analysis of staffing requirements, and in all Regional Offices, some international sector and cross-cutting staff specialists will be posted. To ensure that these staff receive adequate professional support and mentoring, and to ensure that periods spent in field offices are given adequate weight when considering eligibility for advancement in the dual career path and reintegration into Headquarters, a system of dual reporting officers will be introduced for these staff. Their performance will, of course, be evaluated by the head of the Regional Offices or Country Office, but it is proposed that a Professional Supervisory and Support Officer be designated within their VP complex of origin i.e. OSVP or OIVP or possibly other parts of the Bank, most probably at the level of Lead Specialist or Manager. The design of the new Performance Evaluation system must take account of, and make final recommendations for this dual reporting system, to come into effect from 2007. For other staff careful career management, including strict application of mobility and rotation rules, along with a reintegration policy drawing on good practice elsewhere, will be essential.

5.3 **PSA Scheme.** The proposals to properly fund and establish the PSA scheme should include provision for some PSAs to spend one year of their rotations (most probably not the first) attached to a CO/RO. This would prepare them for the very strong likelihood, under the EDS, of spending part of their careers in such offices, and help ascertain their suitability for such outposted assignments.

5.4 **Regional Staff in Regional Offices.** Regional offices, for optimal regional focus and ownership, should have high quality professional staff from across the region in addition to international staff from Headquarters. It will be essential that the Agreements establishing regional offices make provision for local professional staff from within the region to live and work in the country hosting the regional office.

VI. ENHANCING THE ATTRACTIVENESS OF COUNTRY AND REGIONAL OFFICE POSTINGS FOR INTERNATIONAL AND LOCAL STAFF

6.1 Both the TFIR and the paper approved by the Board on 7th April 2006 were explicit in the need to improve the attractiveness of decentralized posting for Bank staff, both in terms of compensation and benefits and in areas such as personal security. CHRM has already done considerable work on this and made recommendations. If these recommendations are implemented, this will bring the Bank broadly in line with its comparator organizations, and should serve to address many of the grievances of currently outposted staff, who consider they suffer penalties rather than incentives for undertaking decentralized postings at present. The recommendations are summarized in Annex IV.

6.2 **Security.** Among the concerns of currently outposted staff is the lack of a clear security policy for ROs and COs, and the lack of systematic involvement of the Bank's Security Unit in the establishment of Field Offices. This is another area in which one size does not fit all. It is recommended that this situation be changed, and that each RO and CO be subject to a professional security review, with regard to both the Office Premises and the personal security of the Bank's staff. The Bank should also make every effort to ensure that its ROs and COs, whether via a global agreement with the UN system or local arrangements with the UN, are covered in terms of evacuation and other aspects of security covered by the UN for the protection of its staff, both local and international.

6.3 **Local Professional and Support Staff.** A range of issues need to be resolved if the Bank is to get the best possible local staff, and get the best from them by providing terms and conditions that are both comparable with those offered by sister institutions, and competitive in local markets. To implement an effective decentralization policy while keeping costs down, much more effective use must be made of good, locally employed professionals, which means not only improved remuneration packages, but enhanced career structures and personal development opportunities. These improvements and enhancements will include: **flexibility of salary entry points** since, in many countries, the current rigid rates are simply not sufficiently competitive to secure the best candidates. In future the Bank will use a basket of local comparator agencies, public and private, and apply a flexible entry point accordingly, with the relevant Regional Director able to authorize a special rate which may fall outside UNDP rates, if justified by local conditions. The Bank is also reviewing **pension and medical benefits** to help attract and retain good local staff, who currently have no pension coverage from the Bank and Management plans to remedy this, and bring ADB in line with the practice of the other major MDBs. Finally, CHRM, in liaison with Country and Regional Departments, will produce proposals based on good practice in other decentralized agencies by the end of 2007 for an **enhanced career path for local staff.**

VII. BUDGETARY IMPLICATIONS

7.1 The CDS approved in 2004 (ADF/BD/WP/2004/84) envisaged the opening of 25 offices staffed with 330 positions and considered a cost per office of UA 418,000 for initial investments and UA 658,000 for annual operating expenses.

7.2 The EDS costs are based on the CDS cost assumptions and indicative estimates for new costs that result from the TFIR proposals. Table 3 compares the cost impact of one office under the CDS and an indicative cost range of CO and RO under the EDS. According to our indicative proposal (refer to Annex I.A) the smallest CO will be staffed with 10 employees and the largest with 18. A small CO would typically be one that is covered by a RO or/and from a country with a relatively small portfolio. The larger CO would have large portfolios and would be potential candidates to host decentralized RO, if these continue to be rolled under Phase II.

Table 3

Cost Impact

CDS		EDS [a)]				
Unit: UA '000						
Country Offices		**Office Model**	CO		RO	
Staff Number	14	Staff Number [b)]	10	18	31	39
Salary Costs	405	Salary Costs	301	528	794	1,020
Other Oper. Costs	253	Other Oper. Costs	202	269	379	446
Total Oper. Costs	658	Total Oper. Costs	503	797	1,173	1,466
Initial Investment Costs	418	Initial Investment Costs	418	418	522	522

a) For positions that (i) do not require a replacement at HQ (eg. TM transfered) or (ii) were created under TFIR proposals (eg. Director or CPO) does not consider full cost but only the additional benefits to be paid due to relocation

b) Range between min and max staffing requirements according to indicative EDS

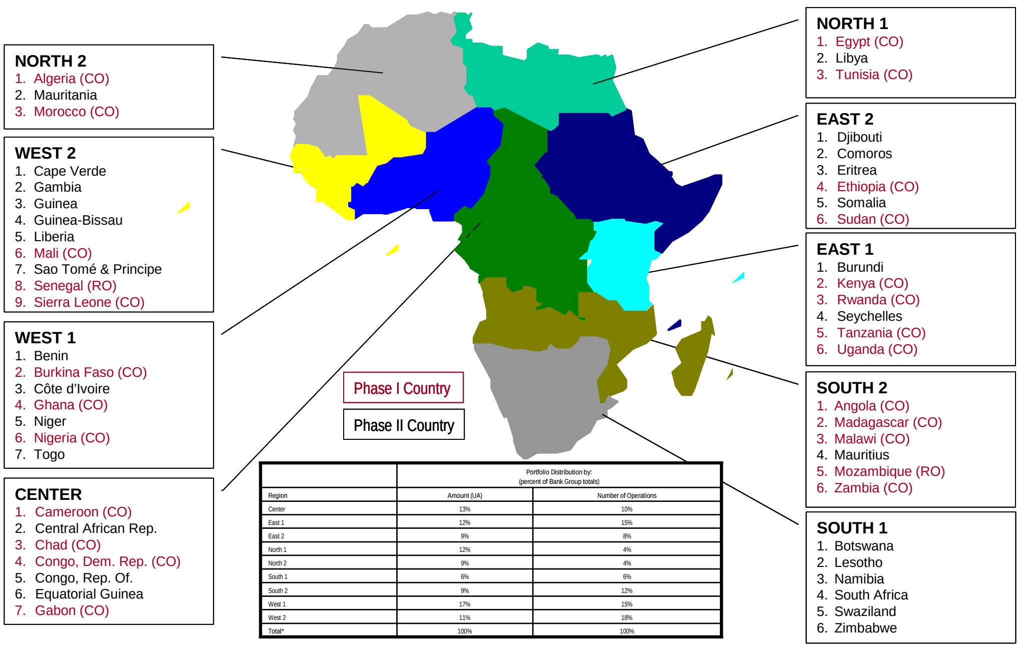
7.3 Under the EDS the yearly CO operational cost ranges between UA 503,000 and UA 797,000. Similarly, the RO would cost per year between UA 1,173,000 and UA 1,466,000. The EDS implementation would be subject to (i) the already mentioned OpsCom assessment of Bank Group's strategic priorities, (ii) the budgetary limits defined under the CDS and the annual budget, and (iii) implementation pace of the new Bank's structure approved by the Boards of Directors on April 7, 2006. . New office opening/transformation would have to be considered within the budget of the relevant year and, therefore, subject to the approval of the Boards of Directors.

VIII. IMPLEMENTATION ARRANGEMENTS: A PHASED APPROACH

8.1 *Phase I*: The EDS will be implemented in two phases. During Phase I the existing offices, namely Burkina-Faso, Egypt, Ethiopia, Gabon, Madagascar, Mali, Morocco, Mozambique, Nigeria, Rwanda, Senegal, Tanzania and Uganda and the remaining country offices expected to open under the CDS, namely Algeria, Angola, Cameroon, Chad, DRC, Ghana, Kenya, Malawi, Sierra Leone, Sudan, and Zambia will be set according to proposed tailored approach. At the end of Phase I, it will be expected that 23 CO and 2 RO would be fully operational

8.2 *Phase II*. Phase II will start after full completion of Phase I goals. OpsCom after assessing the completion of Phase I and the lessons learned will propose: (i) the number of new offices that require to be opened to increase the Bank Group's coverage across the Continent; and (ii) whether, and in what sequence, further Regional Office should be established.

Figure 1 - Phase I Countries and Respective Office Model



	Portfolio Distribution by: (percent of Bank Group totals)	
Region	Amount (UA)	Number of Operations
Center	13%	10%
East 1	12%	15%
East 2	9%	8%
North 1	12%	4%
North 2	9%	4%
South 1	6%	6%
South 2	9%	12%
West 1	17%	15%
West 2	11%	18%
Total*	100%	100%

IX. RISKS AND MITIGATING MEASURES

9.1 Most of the risks associated to the opening and operationalization of field offices are now well understood. In fact, since the Bank Group, in 1999, restarted the process of opening field offices, it has accumulated valuable experience. These risks and the mitigating measures are discussed below:

9.2 *Delays in Opening Field Offices*: The Bank experienced delays in the opening of field offices owing to challenges in reaching agreement with certain countries, during the negotiation of host country agreements, identifying appropriate office space as well as the identification of suitable residential accommodation for staff members transferred to the field offices. With respect to the delays in negotiating the agreement, it is believed that the fact that the Bank has concluded several host country agreements on similar terms as will be used for the new offices, will provide adequate precedence that will facilitate acceptance of the terms by the host countries for the new offices. It also will be recalled that the Boards of Directors, in May 2005, authorized the Bank to conclude host country agreements in both an official working language of the Bank as well as the official working language of the host country (if different). However, the agreement in the working language of the Bank will be the controlling agreement, in the event of an inconsistency.[9] Furthermore, the Bank's services have acquired valuable experience with regard to the logistics for the opening of new offices which will facilitate the process.

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[9] Resolution B/BD/2005/06-F/BD/2005/07, adopted on May 4, 2006.

9.3 *Difficulty in Making Field Offices Attractive:* The Bank needs high caliber staff to achieve the desired objectives for opening the field offices. In this regard, the human resources incentives discussed in sections V and VI as well as Annex 4 of this memorandum, will specifically address this risk, by providing an attractive package for both international and local staff. These incentives include improved transfer and reintegration packages, a Cost of Living Adjustment Allowance, shorter eligibility period for home leave (from 24-12 months), financial incentives, and better security facilities.

9.4 *Dilution of the Bank's Identity***:** With increased decentralization and the establishment of several field offices, there is the risk that the process may lead to institutional fragmentation as well as dilution of the Bank Group's identity. Conscious of this risk, Management will ensure the implementation of policies to keep the field offices as integral parts of the Bank. In this regard, communication facilities will be relied upon to assure participation of field offices in Bank-wide activities. Furthermore, it will be recalled that a second phase of implementation of the recently approved institutional reforms will include the adoption of Bank Group branding recommendations. The implementation of these recommendations will help mitigate this risk of dilution of the Bank's identity. Pending the adoption and implementation of these recommendations, the Bank will choose field office international staff carefully, implement comprehensive orientation programs for field office staff and ensure regular training and validation programs for field office staff. Furthermore, corporate products with Bank Group logo as well as information on the Bank Group will be visibly displayed and made available in the field offices.

9.5 *Operational Quality Control*: With increased delegation of authority to field offices in the context of the enhanced decentralization strategy, field offices will increasingly assumes key responsibilities in the delivery of a broad range of the Bank Group's operational products. This will normally increase the quality of the Bank Group's services to client countries through improved interactions with clients, enhanced knowledge of the conditions prevailing in the country, and increased partnerships at the country level. The experience of other institutions, such as the World Bank shows some potential risks to operational quality. Thus, although a greater degree of decentralization was associated with increased quality-at-entry, it was also noted that the higher the proportion of field office staff weeks in supervision, the higher the likelihood that the project would be rated as a problem project, the longer the processing time, and the lower the disbursement ratio, for example. These findings suggest that the Bank Group will have to develop appropriate mechanisms, including a strengthened operational review process, to ensure that the quality of field offices' products continue to meet the highest standard in the context of the decentralization. To further mitigate the potential risks to the quality of operations, the Bank Group will ensure, through the human resources management policy, that field offices are staffed with high performing staff.

9.6 To further mitigate this operational quality risk, the Bank Group will continue earlier efforts aimed at developing quantifiable indicators to measure the performance of the Bank Group in countries with a field office. These indicators will measure performance with respect to projects and programs implementation, including procurement and disbursement, and country dialogue. Strengthened lines of reporting for filed offices staff, which will involve dual reporting responsibility, will also be implemented towards further strengthening the review of operational products of field office staff. In addition, the Operations Policies and compliance Department will lead a process of developing and implementing a more streamlined and more effective review process for operational products. Finally, highly experienced sector staff posted to the field will contribute towards achievement of higher quality of operations. These measures will strengthen the Bank Group's capacity to better manage the operations-related risks of decentralization.

X. CONCLUSION AND RECOMMENDATIONS

10.1 *Conclusion*: Management, in the context of the institutional reforms, identified the need to refine the Bank Group's decentralization strategy consistent with the objectives of ensuring country focus in the Bank's operations as well as development effectiveness. Furthermore, Management is conscious of the need to strengthen the Bank Group's support to RMCs as they implement their PRSPs and strive to achieve the MDGs. This memorandum has proposed an EDS, which aims to address the weaknesses in the CDS as identified by the TFIR. The basic framework of the proposed EDS is a tailored approach to the Bank Group's presence in a RMC in which the mandate and staff profiles of a field office will be determined by the countries priorities and needs as adequately reflected in the Bank Group's country strategy for the country.

10.2 *Recommendation*: The Boards of Directors are invited to approve:

(i) The Enhanced Decentralization Strategy, as proposed in this Memorandum

(ii) The phased implementation involving the reformation of the existing field offices consistent with the features of the Enhanced Decentralization Strategy, in particular the proposed Country Office and Regional Office model

(iii) In addition, the opening of the offices previously approved by the Boards, in accordance with the enhanced strategy; and

(iv) That upon completion of Phase I of the implementation of the enhanced strategy, the Bank will have twenty-three (23) Country Offices and two (2) Regional Offices each of which would be fully operational, in the host countries approved in the context of the current decentralization strategy;

10.3 The Boards of Directors are also invited to take note of the following initiatives which Management will undertake following the approval of the above-mentioned recommendations:

(i) Before the end of this year (2006) Management will present to the Boards a roll-out plan for the reformation, consistent with the enhanced strategy, of existing offices as well as the opening of the offices in the host countries previously approved by the Boards;

(ii) Management will also present to the Boards the indicators for measuring the effectiveness of the field offices; and

(iii) The indicative budgetary and staffing implications of the Enhanced Decentralization Strategy, which will be reflected in the budget of the relevant years.

Annex I: Staff Estimates Status at May 2006 of the Current Decentralization Strategy

	At Post					Not at Post			
	Countries	International (ADB) Staff	Local Professional Staff	Local GS Staff	Total Staff at Post	International (ADB) Staff	Local Professional Staff	Local GS Staff	Total Staff not at post
Batch 1	Gabon	2	4	9	15				
	Ethiopia	3	3	8	14				
	Egypt	2	3	8	13				
	Nigeria	2	3	9	14				
Batch 2	Uganda	2	3	8	13				
	Tanzania	2	3	8	13				
	Mozambique	2	2	4	8				
	Senegal	2	4	8	14				
Batch 3	Algeria	0	0	0	0	2	3	8	13
	Morocco	1	0	0	1	1	3	8	12
	DR Congo	0	0	0	0	2	4	9	15
	Rwanda	2	1	0	3	0	2	8	10
	Kenya	0	0	0	0	2	3	8	13
	Ghana	0	0	0	0	2	3	8	13
	Madagascar	2	3	9	14	0	0	0	0
	Mali	2	3	8	13	2	3	8	13
Batch 4	Angola	0	0	0	0	2	3	8	13
	Burkina Faso	1	0	0	1	1	3	8	12
	Cameroon	0	0	0	0	2	4	9	15
	Chad	0	0	0	0	2	3	8	13
	Malawi	0	0	0	0	2	3	8	13
	Sierra Leone	0	0	0	0	2	3	8	13
	Sudan	0	0	0	0	2	3	8	13
	Zambia	0	0	0	0	2	3	8	13
	Total	**25**	**32**	**79**	**136**	**26**	**46**	**122**	**194**

Annex II. A- EDS Staff Requirements

Country Departments		VP I Dir (HQ / HQ T)	VP I Mgrs (HQ / HQ T)	VP I CPO+E (HQ / HQ T)	VP I Op Of (HQ / L)	VP I Op A (HQ / L)	VP I Oth S (HQ / L)	VP I Total	VP II + VP III TM HQ / HQ T	VP II + VP III TM L	VP II + VP III Total	Other VPs TM HQ T	Other VPs TM L	Other VPs Total	Total
North 2	Headquarters	1	1	2	-	-	-	**4**	-	-	-	-	-	-	**4**
	CO Egypt	-	1	-	2	1	5	**9**	1	3	**4**	-	-	-	**13**
	CO Tunisia	-	1	1	2	1	5	**10**	2	4	**6**	-	-	-	**16**
	Total	1	3	3	4	2	10	**23**	3	7	**10**	-	-	-	**33**
North 1	Headquarters	1	1	2	-	-	-	**4**	3	-	**3**	-	-	-	**7**
	CO Algeria	-	1	-	2	1	5	**9**	-	2	**2**	-	-	-	**11**
	CO Morocco	-	1	-	2	1	5	**9**	1	4	**5**	-	-	-	**14**
	Total	1	3	2	4	2	10	**22**	4	6	**10**	-	-	-	**32**
West 2	Headquarters	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Guinea Bissau PO	-	-	-	1	-	1	**2**	-	2	**2**	-	-	-	**4**
	CO Mali	-	1	1	2	1	5	**10**	2	4	**6**	-	-	-	**16**
	S Tome&Principe PO	-	-	-	1	-	1	**2**	-	2	**2**	-	-	-	**4**
	RO Senegal	1	1	5	2	5	8	**22**	6	10	**16**	1	-	**1**	**39**
	CO Sierra Leone	-	1	1	2	1	5	**10**	1	3	**4**	-	-	-	**14**
	Total	1	3	7	8	7	20	**46**	9	21	**30**	1	-	**1**	**77**
West 1	Headquarters	1	1	5	-	-	-	**7**	14	-	**14**	-	-	-	**21**
	CO Burkina Faso	-	1	-	2	1	5	**9**	1	5	**6**	-	-	-	**15**
	CO Ghana	-	1	-	2	1	5	**9**	2	5	**7**	-	-	-	**16**
	CO Nigeria	-	1	1	2	1	5	**10**	1	4	**5**	-	-	-	**15**
	Total	1	4	6	6	3	15	**35**	18	14	**32**	-	-	-	**67**
Center	Headquarters	1	1	4	-	-	-	**6**	2	-	**2**	-	-	-	**8**
	CO Cameroon	-	1	-	2	1	5	**9**	1	3	**4**	-	-	-	**13**
	CO Chad	-	1	-	2	1	5	**9**	1	3	**4**	-	-	-	**13**
	CO Congo (DRC)	-	1	-	2	1	5	**9**	1	1	**2**	-	-	-	**11**
	CO Gabon	-	1	-	2	1	5	**9**	-	3	**3**	-	-	-	**12**
	Total	1	5	4	8	4	20	**42**	5	10	**15**	-	-	-	**57**
East 2	Headquarters	1	1	4	-	-	-	**6**	2	-	**2**	-	-	-	**8**
	CO Ethiopia	-	1	1	2	1	5	**10**	2	6	**8**	-	-	-	**18**
	CO Sudan	-	1	-	2	1	5	**9**	1	-	**1**	-	-	-	**10**
	Total	1	3	5	4	2	10	**25**	5	6	**11**	-	-	-	**36**
East 1	Headquarters	1	1	3	-	-	-	**5**	1	-	**1**	-	-	-	**6**
	CO Kenya	-	1	-	2	1	5	**9**	1	1	**2**	-	-	-	**11**
	CO Rwanda	-	1	-	2	1	5	**9**	-	4	**4**	-	-	-	**13**
	CO Tanzania	-	1	-	2	1	5	**9**	1	5	**6**	-	-	-	**15**
	CO Uganda	-	1	1	2	1	5	**10**	2	3	**5**	-	-	-	**15**
	Total	1	5	4	8	4	20	**42**	5	13	**18**	-	-	-	**60**
South 1	Headquarters	1	1	5	-	-	-	**7**	7	-	**7**	-	-	-	**14**
	Total	1	1	5	-	-	-	**7**	7	-	**7**	-	-	-	**14**
South 2	Headquarters	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	CO Angola	-	1	-	2	1	5	**9**	1	1	**2**	-	-	-	**11**
	CO Madagascar	-	1	1	2	1	5	**10**	1	3	**4**	-	-	-	**14**
	CO Malawi	-	1	-	2	1	5	**9**	-	4	**4**	-	-	-	**13**
	RO Mozambique	1	1	4	2	5	8	**21**	3	6	**9**	1	-	**1**	**31**
	CO Zambia	-	1	-	2	1	5	**9**	-	3	**3**	-	-	-	**12**
	Total	1	5	5	10	9	28	**58**	5	17	**22**	1	-	**1**	**81**
Total HQ		7	7	25	-	-	-	**39**	29	-	**29**	-	-	-	**68**
Total CO and RO		2	25	16	52	33	133	**261**	32	94	**126**	2	-	**2**	**389**
Grand Total		9	32	41	52	33	133	**300**	61	94	**155**	2	-	**2**	**457**

Under Dual Reporting Lines

Annex II. B- <u>Staffing of Field Offices-</u> Explanatory note

The CDS considered a single CO model for the 25 countries staffed with two international staff (Resident Representative and Operations Officer), three to four local PL staff and eight to nine local GS staff. The EDS staffing requirements incorporated (i) the new structure and (ii) a tailored approach per office taking into consideration the country's specificities.

(i) The TFIR made several recommendations that have direct impact on the Bank's staffing decentralization strategy, namely:

- Transformation of the current two operational VPs into three VPs;
- Creation of new positions like Country Directors, Lead Economists and Country Program Officers (CPO) at ORVP and assignment of one Country Economist per country;
- Assignment of the current Country Economist's tasks to four distinct positions:
  - Portfolio management and review – CPOs under ORVP;
  - Budget support operations – Task Managers from the Economic and Financial Management Division under OSVP;
  - Governance profiles and studies – Governance Specialists from the Governance Division under OSVP;
  - CSP and country programming – Country Economist under ORVP;
- Transfer Regional Departments to respective regions on a pilot basis;
- Project implementation authority delegated to RO and CO;
- Country Teams composition would be chaired not by the country economists but the Country Manager or by the Regional Directors for countries with no Country Manager and composed by the CPO, Country Economist, selected field office staff and sector specialists (from OSVP and OIVP) and representatives of service departments (FTRY, FFMA, GECL and FFCO).

Besides the (i) TFIR recommendations on decentralization and the (ii) new criteria to determine field office size, the EDS considered additionally the (iii) following assumptions:

a) Resident Representatives should be transformed into Country Managers. Countries without CO and Country Managers should be overseen by the Country Department Director. Country Managers would, ideally, have a background in economics.

b) The office size will depend on the already mentioned selection criteria. A CO should have a Country Manager, a CPO with an operations support team (refer to c)), a number of sector specialists and local support staff (refer to Table 1). A RO will host all the Country Department, that is, the Director, Lead Economist and Country Economists will be transferred to the RO. Additionally, to cope with enhanced delegation of authority, RO will be staffed with two lawyers and additional operations assistants. Two cross cutting specialists should also be transferred to the RO;

c) CPOs posted at the CO will be assisted by one Local Procurement Officer, one Local Disbursement Officer and one Local Operations Assistant. Presently, COs have one International Operations Officer and two Local Operations Assistants. Under the proposed new delegation of authority, procurement and disbursement activities should not be concentrated in one person. CPOs at HQ will be responsible for more than one country and assisted by current PPRU and FFCO officers;

d) Country Economists will be divided into two roles:
   - Economists (Econ) with a supporting role to the department by producing diversified economic and sector studies, country strategy papers, country evaluations etc. They will closely support the Country Director and Country Managers defining the lending program and the Sector Specialists in their field missions. These economists should have close interaction with the Office of the Chief Economist and contribute substantially to an increase of quality economic studies that would raise the profile and credibility of an envisaged knowledge based institution. Due to current staff constraints, in the medium term each country economist should be responsible for more than one country;
   - Economists (Econ TM) as Budget Support Specialists also responsible for donor dialogue in the country. Country dialogue activities are mostly triggered by budget support operations and their continuous monitoring requirements. ADF countries are evolving for donor harmonized frameworks centred in the RMCs national budgets that require the presence of economists in the country for donors joint monitoring and assessment;

e) The number and composition of sector specialists will depend on the selection criteria already mentioned. The sector specialists will evolve according to the medium term lending program defined in the CSP. The sector specialists team in CO will be reassessed and eventually reallocated at the end of each CSP cycle by the Country Director;

f) Sector specialists will include not only Agriculture, Social sector and Infrastructure specialists but also Econ TM and Private Sector Officers (PSO). Sector specialists at CO will not be only local PL staff. Ideally three quarters of the sector specialists should be local PL and the remaining quarter of sector specialists transferred from HQ;

g) Core support services like FFCO, FFMA, PPRU, PSDU, GECL, HR, IT remain at HQ. HQ also retains functions of design of institutional policies and procedures, and ensures policy coherence and quality control. Since most of the Country Team members would be in CO, a new project’s review and approval mechanism would have to be developed;

h) Apart from Sector’s Departments staff of OSVP and OIVP that will be transferred to CO to enhance projects implementation, most of OSVP and OIVP staff would remain at HQ for project identification, preparation and appraisal activities. Sector specialists at CO will have dual reporting lines: One to the Regional Director and another to their sector departments at OSVP and OIVP.

Annex III
Experience of similar Institutions

World Bank

History of decentralization: For most of its history (since 1946), the World Bank was a highly centralized organization. The Bank's operations were not decentralized to country offices until 1996. The key feature of the new organization was to create 46 Country Directors (including 16 for Africa), with full control over the budget and work program for their countries. The majority of them were to be resident in their countries. At the moment, there are 9 Country Directors in Sub-Saharan Africa. They are in South Africa, Mozambique, Tanzania, Kenya, Ethiopia, Madagascar, Ghana, Nigeria and Senegal. There are also 22 Country Managers in Angola, Zambia, Malawi Uganda, Eritrea, Sudan, Cameroon, Chad, Gabon, Burundi, Rwanda, Congo, DRC, Sierra Leone, Burkina Faso, Guinea, Niger, Benin, Mali, Togo, & Mauritania.

Functions Covered by Country Offices: The Country Offices lead the country and economic dialogue, identify projects, participate in preparation and appraisals, supervise some projects (depending on the clustering of skills in individual offices), process procurement and disbursement applications (in 2003, 66 % of procurement sign-off and 15% of disbursement authority), handle financial management (80% of institutional and fiduciary controls) and maintain general contacts with other donors, the business community and NGOs. Approvals remain the exclusive prerogative of the Headquarter.

Country Offices have had steady increases in staff *predominantly through the local recruitment of national officers*, supplemented at a ratio of about 1 to 5 by the transfer of HQ-based professional staff. As a result, 51 % of all the Africa Region staff (including support staff) are now in Country Offices. About 42% of all professional staff and 20% of the Bank's international staff are in Africa. A deliberate effort has also been made in the last two years to delegate task management responsibility to the field.

Costs: Decentralization has been costly, although it is difficult to put a precise price tag on the changes undertaken since 1996. With 1400 staff, the Africa Region is larger than the AfDB (1200). The Region's budget is USD 250 million compared to USD 260 USD million for the total AfDB budget). The number of staff working in country offices is determined by sector staffing strategies, updated each year during the budget cycle, within an overall dollar ceiling. No evidence exists that strong country offices reduce mission traffic. In some cases, costs have actually risen, in large part because of escalating airfares. International staff are much more expensive stationed overseas (approximately, twice more than at HQ) , but even national staff are now becoming costly because of local inflation. Overall, there has been a slight reduction in unit costs in Sub-Saharan Africa and a modest increase in North Africa.

Impact: The Bank recently submitted its third assessment of decentralization to its Executive Directors. The Bank's borrowers welcome the management of its operations from Country Offices. Client surveys have shown rising appreciation of the Bank's services, even if some major borrowers continue to seek direct access to senior decision-makers in Washington. The Bank thinks it is very hard to work without field offices, but at the same time it is difficult to demonstrate their contribution to efficiency and quality. The Bank believes, however, it is doing more things, and different things, cost-effectively. While difficult to demonstrate, there has probably been some reduction in the collective donor "transaction costs" in developing country capitals; these are likely to grow more significant over time. Field-based Country Directors/Country Managers are making new demands on institutional processes, forcing more streamlining and faster decision-making. National staff are more empowered and energetic. A stronger field presence has helped the Bank move towards a new assistance model (partnership and budget support).

Issues: Although the number of field assignments from HQ has not expanded significantly, *it is difficult to convince HQ staff to serve in the field.* Women at the early stage of their "life cycle" are particularly reluctant to move. For career reasons, sector staff are also hesitant to accept field assignments, leaving mentoring/coaching ratios in country offices dangerously low, with obvious risks for project quality. Even where HQ staff have moved to country offices, they have tended to do task management rather that concentrate on building the capacity of national staff. Field assignment benefits were substantially reduced in the late 1990s and are now being reviewed again. (In a recent survey, 19% of HQ-based field staff claim to have "suffered financially" during their assignments). Past efforts to require field assignments as a stepping-stone to management positions have not proved successful. The Bank is also looking at more liberal arrangements for spouse employment and partner support. The Africa Region is contemplating new experiments with regional "hubs" but these would be small.

Inter-American Development Bank

History of Decentralization: The IADB has had country offices in each of its 26 member countries virtually from the start of its operations (1964). No other institution has had such extensive experience with field offices. The Bank has not experimented with Regional hubs, but may do so in the future for specialized advice to country offices (e.g., environment, procurement).

Functions Covered by Country Offices: The IADB has focused the country offices *on project execution only*. Their comparative advantage, it is felt, is to offer technical advice to Ministries and implementation agencies in supervising projects and facilitate the use of proper procedures, including those related to preparing new projects. Doing anything more would require a higher number of specialist staff on the spot. The overall economic policy dialogue, and the preparation and appraisal of projects, are still managed from HQ, although a Country Office may *lead* in some cases. However, within its limited sphere (project execution), the country offices exercise full responsibility. Except for complicated cases which are referred to HQ, *all procurement and disbursements transactions are managed from the field.* As a control, two people (of whom, at least one international staff member) must sign off on disbursement applications.

The IADB approach has been to recruit people *internationally, specifically for the country offices* (engineers, procurement and financial expertise, and increasingly generalists and contract managers). There are three sets of staff: locally-engaged, international staff hired for COs, and internationally recruited staff for HQ. The only HQ staff stationed in the field are the Country Representatives and the occasional specialist (environment). About 600 of the Bank's 2000 staff (30%) are in country offices. A larger proportion of operational staff are in the field.

There is a great deal of videoconferencing between HQ and Country Offices. Ninety percent of COs now have the necessary IT capacity. However, quality of reception can sometimes be a problem.

Impact: The IADB has always had country offices, so it is difficult to compare a "before" and "after" situation. But the general judgment is that the country offices have been very successful and the borrowers appreciate the Bank's local presence. The consensus is that decentralization promotes effectiveness, rather than efficiency. Most managers believe the IADB model is rock solid and should not be tampered with. There have been pressures on the Management – among others, from the Board – to delegate more functions to country offices, but these have been resisted to date.

Issues: Decentralization is costly. As an economy measure, the Bank tends to purchase office space but houses are rented. Also, there is a constant risk of corruption. Accordingly, the Bank rotates its international staff every 5 years (3 years in hardship posts) to another country. This rotation policy also enriches staff skills through exposure to other country experiences.

Asian Development Bank

History of Decentralization: The AsDB commenced decentralization later than the World Bank and the IADB. This was, in part, because it was not considered necessary as the AsDB was already located in its region of operations, Asia - unlike the World Bank and IADB. A South Pacific Regional Office was established in Vanuatu in the early 1980s to prepare and supervise projects in the small island members, and it worked satisfactorily. Thirteen of the Bank's thirty-nine members were in the South Pacific. There was no real strategy for decentralization. The first Resident Mission was opened in Bangladesh to deal with problems in the Bank's largest portfolio, followed by Indonesia – the Bank's largest non-concessional borrower. These were on-off decisions, driven by portfolio needs. Based on this initial experience, proposals to set up other offices were sent to the Board in the **early 1990s**, specifying criteria (including minimum portfolio size) for new offices. About one new office has been established each year, and the country coverage is now almost complete: 20 Resident Missions, plus the South Pacific Office. Country Directors are based in the HQ.

Functions Covered by Country Offices: To start with, responsibility was delegated for project supervision (i.e., maintain a dialogue with executive agencies) but not all of them are adequately staffed to do this properly. For example, a road expert will be appointed to a particular office if there is a sufficient clustering of transport projects in the portfolio. Programming and country economic reporting have been added recently. The Country Strategy and Programming Paper is now drafted in most of the Resident Missions. Project processing is still HQ-based. Some aspects have been delegated on a pilot basis, but it is not clear how feasible and cost-effective this has been. The Bank has *not* decentralized procurement and disbursement, for reasons of governance and the risk of “capture” by local authorities.

The typical Resident Mission has 1-3 staff from HQ supervising a varied number of national staff.

Issues: Movement of staff in both ways, especially return to Headquarters, has proved sometimes problematic.

Annex IV

Summary of Proposals To Bring The Bank's Benefits and Allowances for Staff Posted to The Field In Line With Those of Other MDBS and Comparable Institutions.

(a) Payment of 100% of rent up to an established ceiling for international staff and deduction of 10% of rent from the salaries of the staff;

(b) Payment of lump-sum equivalent to US$800 to Country Managers to cover utility expenses (electricity, water, telephone);

(c) Approval of a Field Office Duty Allowance of 15% of salary, for staff posted to post conflict countries and 7.5% of salary, for staff posted to countries that are not considered as post conflict countries;

(d) Maintenance of the Field Office Relocation Grant of two (2) months salary;

(e) Maintenance of the facility for 10 days exploratory Mission and per diem;

(f) Maintenance of the facility for the transportation of personal effects and vehicle(s);

(g) Maintenance of the installation allowance in accordance with Staff Rule 52.03 (b) for staff who are recalled to the TRA or Abidjan from field office assignment;

(h) Assumption of duty air tickets for staff and dependents;

(i) Provision of residential security guards, alarm system and radio link for international staff as recommended by the UN in the locality of the field offices;

(j) Provision of Cost of Living Adjustment (COLA) allowance;

(k) Provision of relocation per diem for staff and spouse;

(l) Provision of a shorter interval between home leaves, once every 12 months of service in post conflict countries.

The benefits proposed will be reviewed from time to time to ensure that they reflect the realities in the field offices. In this way the level of the Bank's competitiveness will be enhanced.

CONFIDENTIAL

AFRICAN DEVELOPMENT BANK
ADB/BD/WP/2006/77/Add.1

AFRICAN DEVELOPMENT FUND
ADF/BD/WP/2006/77/Add.1
21 July 2006
Prepared by: GECL
Original : English/French

Probable Date of Board Presentation: **24 July 2006**	**FOR CONSIDERATION**

MEMORANDUM

TO : THE BOARDS OF DIRECTORS

FROM : Modibo I. TOURE
Secretary General

SUBJECT : ENHANCED DECENTRALISATION STRATEGY

STRENGTHENING COUNTRY FOCUS AND CLIENT RESPONSIVENESS THROUGH A TAILORED APPROACH

DRAFT RESOLUTION *

Please find attached hereto, the **Draft Resolution** relating to the above-mentioned document.

Attch.:

Cc.: The President

***Questions on this document should be referred to:**

Mr. A. AKIN-OLUGBADE	**General Counsel and Director**	**GECL**	**Ext. 2032**
Mr. D. TSIKATA	**Ag. Division Manager**	**GECL.2**	**Ext. 3024**

SCCD:N.A.

AFRICAN DEVELOPMENT BANK AFRICAN DEVELOPMENT FUND

BOARDS OF DIRECTORS

Resolution N° B/BD/2006/[ ] – F/BD/2006/[ ]

Adopted at the [ ] Meeting of the Board of Directors of the Bank, and at the [ ] Meeting of the Board of Directors of the Fund, on [ ] 2006

Enhanced Decentralization Strategy – Strengthening Country Focus and Client Responsiveness through a Tailored Approach

THE BOARDS OF DIRECTORS,

HAVING REGARD to: (i) the Agreement Establishing the African Development Bank (the "Bank"), in particular Articles 32 (Board of Directors: Powers) and 39 (Offices of the Bank); (ii) the Agreement Establishing the African Development Fund (the "Fund"), in particular Articles 22 (Organization of the Fund), 26 (Board of Directors: Functions) and 32 (Office of the Fund); and (iii) the General Regulations of the Bank, in particular Article 1 (Offices of the Bank);

RECALLING:

(i) The Communiqué issued by the Governors' Consultative Committee of the Board of Governors of the Bank (GCC), following the Fourth Meeting of the GCC, in Accra, Ghana, from 16 – 17 December 2003, in which the GCC requested the Board of Directors and Management to study the possibilities of accelerated institutional decentralization;

(ii) Resolution B/BD/99/20-F/BD/99/07 adopted by the Boards of Directors on 27 September 1999, approving the establishment of field offices in regional member countries of the Bank (RMCs);

(iii) Resolutions B/BD/2002/28-F/BD/2002/26 adopted by the Boards of Directors on 13 November 2002, and B/BD/2004/18-F/BD/2004/11 adopted by the Boards of Directors on 8 September 2004, both approving the establishment of additional field offices in RMCs; and

(iv) Resolution B/BD/2004/19 adopted by the Board of Directors of the Bank on 8 September 2004, approving certain institutional adjustments to enhance the functioning of field offices, and Resolution B/BD/2005/06-F/BD/2005/07 adopted by the Boards of Directors on 4 May 2005, approving certain adjustments to facilitate the negotiation and signature of host country agreements;

HAVING CONSIDERED Document ADB/BD/WP/2006/77 - ADF/BD/WP/2006/77 entitled "Enhanced Decentralization Strategy – Strengthening Country Focus and Client Responsiveness through a Tailored Approach (the "Proposal");

HEREBY APPROVE the enhanced decentralization strategy as set out in the Proposal (the "Enhanced Decentralization Strategy"), and in this connection:

(i) Approve the phased implementation of the Enhanced Decentralization Strategy involving the reformation of the existing field offices consistent with the features of the Enhanced Decentralization Strategy, in particular the proposed Country Office and Regional Office models;

(ii) Approve the opening of those offices previously approved by the Boards of Directors, in accordance with the Enhanced Decentralization Strategy; and

(iii) Decide that upon completion of Phase I of the implementation of the Enhanced Decentralization Strategy, the Bank will have twenty-three (23) Country Offices and two (2) Regional Offices each of which would be fully operational in the host countries previously approved by the Boards of Directors;

TAKE NOTE that:

(i) Before the end of the year 2006, Management will present to the Boards a roll-out plan for the reformation, consistent with the Enhanced Decentralization Strategy, of existing offices as well as the opening of the offices in the host countries previously approved by the Boards of Directors;

(ii) Management will also present to the Boards of Directors the indicators for measuring the effectiveness of the field offices;

(iii) The indicative budgetary and staffing implications of the Enhanced Decentralization Strategy will be reflected in the budget of the relevant years; and

(iv) Management's future proposals to the Boards of Directors for the opening of new field offices, in addition to the Phase I field offices, will be based on the Enhanced Decentralization Strategy;

HEREBY AUTHORIZES the President to take such administrative measures as may be necessary for the timely implementation of this Resolution.