

# AFRICAN DEVELOPMENT BANK GROUP

## Mid-Term Review (MTR) of the Bank Group Medium Term Strategy 2008-2012

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## EXECUTIVE SUMMARY

The aim of this Mid-Term-Review (MTR) of the Bank's Medium Term Strategy (MTS) 2008-12 is to evaluate progress against initial objectives and, in the light of that assessment, to make adjustments for the remainder of the MTS period. It also serves to initiate consideration towards a longer term Strategy beyond 2012.

The launch of the MTS coincided with the onset of global economic crises - the triple fuel, food and financial crises. The Bank displayed swiftness and flexibility in responding to the changing needs of its clients during this period. It frontloaded resources, restructured its loan portfolio, and offered fast-disbursing instruments to help RMCs cope with the short-term effects and to reduce the longer-term impacts. Total Bank Group lending amounted to UA8 billion in 2009, an increase of 160% over that of 2007, and far higher than originally planned.

At this time of crisis, the Bank's operational focus remained firmly on the MTS core priorities. Between 2008 and December 2010, the Bank's total investment in the core areas of infrastructure, private sector, governance and higher education and vocational training amounted to 88.4% of the Bank's total commitments (UA13.7 billion out of UA15.5 billion). Investment in sovereign infrastructure operations accounted for 51.3%, private sector 25% and governance about 22%. However, operations approved in higher education, science and technology (HEST) were less than 2% of total lending, which is inconsistent with its strategic importance for Africa. Bank resources leveraged additional funding with its strategic partners; co-financing accelerated reaching a total of some UA19.16 billion in 2009 - with the Bank itself contributing 20%.

The rapid expansion of private sector operations, including in low income countries, has been a singular characteristic of the MTS period. A review of the Bank's policy for Private Sector Development (PSD) is underway and will help fine-tune interventions over the remainder of the MTS. Work continued in fragile states, with Bank Group support proving crucial to countries' economic and social stability. Investments in regional operations are on target with demand well exceeding available resources.

Financial rigour was maintained throughout, but it was recognized that attention should also be given to the management of risk as the portfolio grows and the share of PSO increases. Improvements in procedures and in oversight are being put in place.

The Bank took the lead to bring together African Finance Ministers and Central Bank Governors to consider Africa's response to the crisis, to provide advice to African Heads, and to input African perspectives into G20 discussions. The resulting Committee of Ten (C10) continues to meet regularly to discuss economic priorities for Africa and strategies for Africa's engagement with the rest of the world.

The Bank has stepped up work on knowledge generation and advice. Its flagship publications are now among the leading sources of information on African development, eliciting broad collaboration from among others, the OECD, the World Bank, and the World Economic Forum. The African Economic Conference organized jointly with the Economic Commission for Africa is now a major international forum for African development.

As the global financial crisis took centre stage, it became immediately apparent that the demand for Bank resources exceeded funds available. Coincident with the increase in lending operations, negotiations for a General Capital Increase began, concluding in mid-2010 with a 200% increase. ADF Replenishment negotiations concluded at the end of 2010 with an increase of 10%. The GCI

matrix and the ADF-12 Action plan provide specific benchmarks against which results will be assessed and constitute an important framework for the remainder of the MTS period.

The coincidence of the two exercises highlighted the interdependence of the two main windows of the institution and brought to the fore the importance of the ‘One Bank’ approach. The move toward a policy and outcome based approach, rather than instrument led, has important implications for Bank Group policies and operations which will be addressed over the next few years.

Quality of Country strategy papers (CSPs) is improving and will be adjusted further to ensure that private sector development is mainstreamed. The introduction of Regional Integration Strategy Papers (RISPs) and an accompanying dashboard reinforce selectivity and prioritization of regional operations.

The impact of climate change on Africa is now much more apparent, as is the need to respond effectively to the specific needs of the continent. The Bank must further integrate climate change and development objectives, and mainstream action. The Bank has been asked by African leaders to host a Green Fund for Africa to mobilize resources to tackle climate change.

In the first three years of the MTS the Bank Group has implemented a number of institutional reforms and policies and undertook a ‘fine-tuning’ of the management structure. More progress is required, in particular to deepen decentralization and to tailor it to particular country circumstances. A dedicated unit to strengthen the Bank’s management for results was established. Progress has been made in the use of country systems and donor harmonization, but more remains to be done.

Raising the quality of the Bank’s human resources was a key MTS premise. The Bank Group has made progress, recruiting 753 staff in 2008-2010. This is equivalent to 42% of the current total workforce. However, important gaps in skills mix are still to be addressed including in field offices.

Current events in some RMCs underline the challenges of development in Africa and for the Bank. No other MDB has faced such difficulties in its location, and it is a tribute to staff that it has continued to deliver. The process of adjustment to changing circumstances and to new demands will require the Bank to show the same flexibility and responsiveness as it has done so far. The key conclusions of the mid-term review are that:

- The strategic focus on the four flagship areas remains relevant and can credibly continue to guide Bank operations for the remaining period.
- The Banks should pay special attention to HEST and emerging imperatives such as food security and climate change.
- The Banks should give further emphasis to the development of private sector which is key to growth, job creation and poverty reduction.
- The Bank should be anticipatory, responsive and flexible especially with respect to major political and social developments unfolding in many RMCs including North Africa while protecting its achievements.
- The Bank should sharpen its focus on providing timely knowledge solutions to RMCs on policy issues of high relevance.
- The Bank should build stronger strategic partnerships in order to maximize development impact.
- The Bank should improve on both delivery and results through continued institutional reform.
- The Bank should strengthen its work on promotion gender equality and economic empowerment of women.
- The Bank should initiate work on a successor plan to the MTS.

## 1. INTRODUCTION

The African Development Bank Group's 2008-2012 Medium Term Strategy represents the corporate roadmap to achieve development results in core priority areas. This Mid-Term Review (MTR) aims to: (i) assess Bank performance three years into implementation of the Strategy; (ii) identify necessary adjustments for the remainder of the MTS period; and (iii) pave the way for a Long Term Strategy for the Bank Group.

This report is structured as follows; after this introduction, Chapter 2 discusses the context in which the MTS was implemented. Chapter 3 evaluates the progress made at mid-term. Chapter 4 highlights the MTS priorities, challenges and opportunities for the remainder of the MTS period and beyond. Chapter 5 presents the main conclusions of the review.

## 2. CONTEXT

The MTS was developed during a time of increasing optimism towards African economic performance and the Bank Group's enhanced development financing role in the continent. Accordingly, it assumed that RMCs economic outlook would remain largely healthy and that the demand for lending in the Bank's core priority areas of infrastructure, governance, and private sector development would increase by 14% annually between 2008 and 2012.

The onset of the global financial crisis caused extraordinary contraction in trade, liquidity and investment across the continent, threatening to derail its growth and development trajectory. These developments and calls by regional member countries (RMCs) and the G20 for the Bank to play a major countercyclical role, prompted substantial operational adjustments particularly in terms of lending volumes. The Bank rapidly mobilized additional support to the RMCs. It increased both concessional and non-concessional investment volumes<sup>1</sup>, and introduced new instruments. Exceptional macro-economic circumstances saw both low and middle income countries call on the Bank to access quick disbursing budget and balance of payment support. Both public and private sector financing levels remained high. A USD1.5 billion Emergency Liquidity Facility (ELF) was established to keep credit flowing to investments that faced the threat of delay or cancellation. A USD1 billion Trade Finance Initiative was launched to mitigate the impact of heightened risk aversion on the availability of short-term trade financing.

In spite of these challenges, progress in MTS implementation has been strong, critical objectives met, and the strategic orientation of the MTS validated. The Bank has been able to respond to crisis-generated challenges while strengthening its risk bearing capacity and resource levels. The Bank now possesses a wider resource base as a result of the success of the 6th General Capital Increase and the ADF-12 replenishment<sup>2</sup>. It will continue to strengthen its delivery capacity by fine-tuning reforms for enhancing efficiency and results. For the remainder of the MTS period, the Bank will have to respond to post-crises events of a different nature, those emerging from the unfolding socio-political landscape in our region and demanding new and innovative approaches and instruments. As at end of 2010, the global economy has not fully recovered and the regional outlook remains uncertain. The Bank forecasts 4.5 percent real GDP growth for Africa in 2010

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<sup>1</sup> ADB/BD/WP/2009/27 4<sup>th</sup> March 2009 – Bank Response the Economic Impact of the Financial Crisis.

<sup>2</sup> General Capital Increase of 200% with 6% paid in capital increasing the Bank's authorized capital from UA24.0 billion (US\$35.0 billion) to UA67.7 billion (US\$100 billion). ADF-XII replenishment level agreed at UA6.1 billion (US\$ 9.5 billion) for the 3-year period starting 2011.

and 5.5 percent in 2011. Although a swift return to high growth levels remains a key challenge for all RMCs, events in the region are a reminder that while robust economic growth is necessary, inclusion, transparency, accountability and sustainability are crucial for stability and peace.

### 3. PROGRESS MADE AT MID-TERM

The Bank has made progress in the implementation of the MTS and delivered on its commitments of ensuring greater sector selectivity and focus. Approvals in 2008-2010 were UA15.5 billion against UA11.3 billion projected under the MTS. Of the total volume of approvals, 88.4% or UA13.7 billion were directed to the priority sectors.

#### 3.1 MTS Financing Objectives

Table 1 shows that the total lending volume targets for 2008-2010 have been exceeded by more than UA4 billion, largely as a result of the Bank's swift response to calls for it to perform a counter-cyclical role during the financial crisis.

**Table 1: 2008-2010 MTS Financing Targets and Actual Approvals (in UA million)**

	2008	2009	2010	Total
<b>MTS (Total)</b>	<b>3,540</b>	<b>4,090</b>	<b>3,710</b>	<b>11,340.0</b>
- of which ADB	1,640	2,187	2,171	
- of which ADF	1,900	1,903	1,539	
<b>Actual Approvals<sup>3</sup></b>	<b>3,472.3</b>	<b>8,030.9</b>	<b>4,037.3</b>	<b>15,540.5</b>
- of which ADB	1,807.0	5,604.0	2580.6	
- of which ADF	1,665.3	2,426.9	1456.7	

**Note:** Approvals include HIPCS, Equities and Guaranties, but exclude Water Special Funds.

Source: African Development Bank Group

Lending volumes peaked in 2009 at UA8.03 billion, twice the target for the year. Decisive steps were taken to pre-empt the impact of 2009 frontloading on the commitment capacity of the Bank and the Fund for subsequent years, notably through the GCI and early launch of the ADF replenishment process.

The Bank Group's investments for 2010 exceeded the MTS targets and reached UA4,037.3 million. However, they fell short of the GCI revisions due to (i) the quicker than expected pace of economic recovery dampening demand for the Bank's counter-cyclical role and (ii) the impact of 2009 frontloading on the readiness of operations initially scheduled for 2010.

#### 3.2 Operational Selectivity

The MTS emphasizes four core sectors of operations, highlights the importance of responding to imperative development considerations and integrating cross-cutting issues. The Bank's operational objectives are shown in Figure 1. They guide the prioritization of specific sectors and corporate mandates in the Bank's portfolio.

<sup>3</sup> Excluding the NTF and Special Fund approvals.

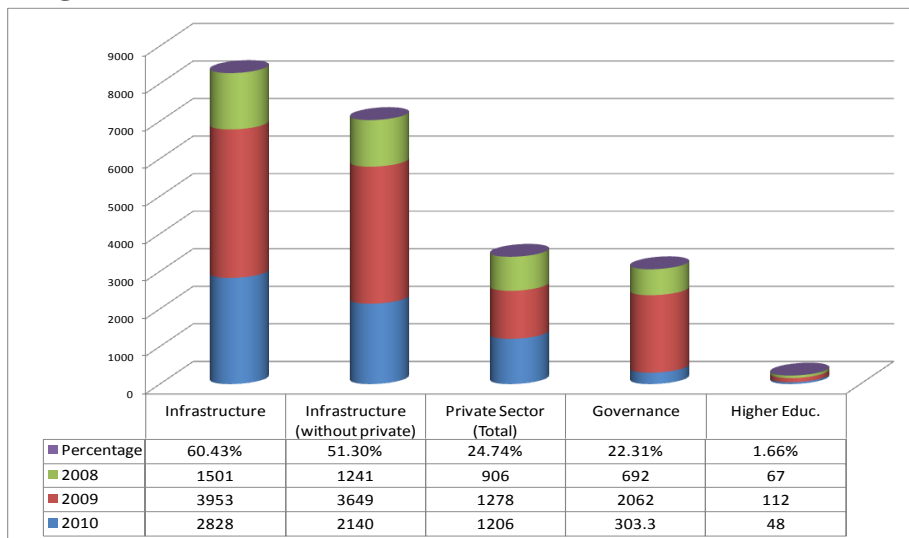
**Figure 1: African Development Bank Group Focus**



Source: MTS 2008-2012.

By channeling 88.4% of its approved financing volume to the MTS priority areas, the Bank has delivered on its commitment to selectivity and focus (see Figure 2).

**Figure 2: Allocations to core areas for 2008 -2010, in UA million**



**Note:** (i) Total approvals for core areas in 2008-2010: UA13.7 billion; (ii) Allocations to Infrastructure include Loans, Grants, Equities, Guaranties and oil and gas transactions.

Source: African Development Bank Group.

Indeed, these areas of focus have remained pertinent throughout and beyond the crisis. These flagship areas received about UA13.7 billion out of the Bank’s total investments amounting to UA15.5 billion during the period under review.

Infrastructure received the largest share, accounting for 60.4% (inclusive of private sector investment in infrastructure) of the Bank’s commitments and 51.3% without private sector-financed infrastructure, while 24.7% were private sector investments. The governance sector’s share was 22.3%. With only UA227 million or less than 2% of total Bank Group financing, performance in the higher education sector has been below expectation, warranting reflection for the remainder of MTS.

### 3.2.1 Key Strategic Priorities

#### *Infrastructure*

Given its critical role for economic growth and development, infrastructure remains a core priority. Improved infrastructure increases competitiveness and productivity, deepens economic and social integration, creates employment opportunities, supports the delivery of social services, and thus contributes to reducing poverty. In times of economic downturn, infrastructure investments can also stimulate recovery.

As highlighted in Figure 2, total sovereign and non-sovereign approved investments in infrastructure operations represented 60.4% of the Bank's total investment in the four core areas. Energy and power received the largest share (47%), followed by transportation (39%), water supply and sanitation (12%), communications (1%) and other infrastructure (2%).

The energy sector has seen an emerging emphasis on energy efficiency, clean and renewable energy and support to regional power pools. In the transport sector resources have been mobilized towards the expansion of regional corridors, trunk and rural roads, railways, and urban programs that support or open up economic hubs. Box 1 provides ex-ante outcomes from a transport infrastructure project to increase railroad capacity in Morocco.

#### **Box 1: Increasing railroad capacity to improve rail transport competitiveness**

The Tangiers Marrakech Railroad project in Morocco (UA 375.0 million) represents the largest intervention to date by the Bank in Morocco. It has the regional potential of connecting the country to its North African neighbours. When completed in 2016 it is expected to (i) significantly raise rail travel, with an improvement in rail traffic fluidity and increased frequency of shuttle, mainline, and freight trains; (ii) increase population mobility in the project area; and (iii) create direct and indirect jobs during project implementation and operational phases.

Similarly, in the ICT sector, priority has been given to broadband and backbones infrastructure that connect countries to one another and to the rest of the world. Approvals in the water and sanitation sector are expected to boost access to water and sanitation focusing on peri-urban centers and the poorest 65% of rural populations. It will also improve water management.

#### *Private Sector Development*

In January 2008, the Board of Directors approved a strategy update of the Bank's Private Sector Operations (PSO) and a related 3-year Business Plan (2008-2010). The AfDB's vision for private sector development (PSD) links entrepreneurship to sustainable development and poverty reduction. Supporting both public and private sector actors has enabled the Bank to support enhancement of the business environment. It has also made it possible to promote private sector operations that catalyze other investors by demonstrating that Africa is a sound and commercially attractive investment destination.

The Bank has increased its volume of sovereign operations that aim to improve country competitiveness and the investment climate, by supporting public sector governance reforms and activities targeting the enabling environment for private investments in key economic sectors.

Eighteen RMCs have benefited from a combination of interventions aimed at improving the legal and regulatory environment for business. It has also undertaken private sector-oriented Economic and Sector Works (ESWs) led by regional departments, underpin the country strategy and identify opportunities for catalytic non-sovereign transactions. However, the recent mid-term review of the 2008-2010 PSO Business Plan highlighted that PSD has yet to be fully integrated into the Bank's institutional culture.

The Bank's non-sovereign transactions have mobilized the second largest share of Bank approved investments. They account for UA3.4 billion (24.7%) of the total committed to the four key priority areas. In addition to investing its own risk capital, the Bank acted as lead arranger and mobilized co-financing valued at a total of UA951 million. During the period under review, every UA of non-sovereign investment has been matched almost sevenfold in the form of equity, commercial and DFI co-financing.

Investments in financial institutions and equity funds have increased substantially, in line with Bank Strategy to mobilize intermediaries to reach small and medium enterprises (SMEs), which are drivers of employment creation. The Bank also invests in micro finance institutions with the objective of supporting very small and informal enterprises which face difficulties to have access to finance.

Debt instruments constituted the largest share of new approvals (84%). In spite of the introduction of the Emergency Liquidity Facility and the Trade Finance Initiative, the sector mix of new approvals remained close to target. Operations in LICs and multi-country operations constituted about a third of new non-sovereign approvals. Private sector operations that benefit LICs directly or indirectly account for over 66% of the active private sector portfolio volume, including national, multi-national and regional operations.

The Bank has maintained a strategic balance between the financial risks it takes and the development results by applying since 2009 both a credit risk and a development outcome and Bank additionality. Box 2 highlights the expected development outcomes of projects approved since the introduction of this dual assessment.

### **Box 2: Private sector operations**

For projects approved in the private sector during the 2009-10 period, it is estimated that more than 306,600 jobs will be created (temporary and permanent) over the duration of these projects, with further enhancement, credit or business opportunities to be provided to 52 000 women-led businesses. A minimum estimate of UA9.7 billion in taxes will be generated for governments throughout the projects' lives, including businesses assisted by sub-loans from lines of credit. A substantial amount in foreign exchange earnings or savings is also expected throughout the lifespan of these projects.

### ***Governance***

Good governance is crucial for shared and sustained economic growth and to build capable states. The MTS committed the Bank to enhancing transparency and accountability in public financial management, at country, sector and regional levels, giving special focus to fragile states and natural resource management. The Governance Strategic Directions and Action Plan (GAP)

2008-2012, defines a set of guiding principles for delivering results in line with the MTS, and achieving impact at country, sector and regional levels.

During the global financial and food crisis, the Bank responded to the increased demand by the RMCs that were worst affected, by providing institutional capacity building and quick-disbursing budget support, enabling them to maintain macroeconomic stability and the momentum of broader economic reforms. It channeled UA3.06 billion (22.3%) to governance operations, which is above the target set out in the MTS. A substantial amount of financing (61%) was directed towards strengthening public financial management (budgeting, procurement, revenue management and auditing). Special attention was given to assisting fragile states in rebuilding core systems and institutions for enhanced accountability and transparency. Box 3 illustrates some anticipated results of the Bank's intervention in the governance sector.

**Box 3: Growth & Poverty Reduction Strategy Support Program (GPRSSP III)-Benin**

The GPRSSP III aims to strengthen good governance through increased efficiency and effectiveness in public financial management and to build a solid base for sustainable economic growth through an improvement in the business climate. It is expected that this intervention will (i) improve public finance and internal and external control system; (ii) reduce procurement time from 8 months in 2008 to 5 months in 2010; (iii) lower the minimum capital required for SMEs start-ups by 10 percent in 2010 compared to 2008; (iv) reduce time to start a business from 31 days in 2008 to 12 days in 2010; (v) bring down ownership transfer time to less than 120 days by 2010, and lower registration cost.

The Bank has also delivered on its commitment to increase transparency in natural resources management. It provided support to over ten RMCs that have subscribed to the Extractive Industries Transparency Initiative (EITI), two of which are countries in which the Bank has mining sector investments.

***Higher Education***

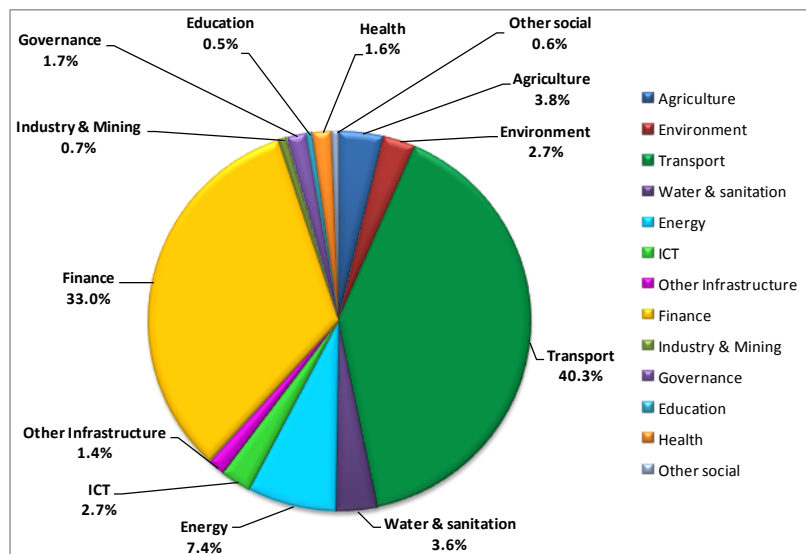
The MTS sharpened the focus of the Bank in the area of human development, to concentrate on supporting higher education, science, technology and vocational training (HEST). The 2008 approved HEST Strategy targets the provision of infrastructure (buildings and equipment) for national as well as regional centers of excellence, the deepening of knowledge on the linkages between employment, youth and skills development at the country level, education and employment sector reforms, as well as the promotion of PPPs in the sector. A total of six projects linking HEST to the productive sector and job creation in particular among the youth were approved during the MTS Review period totaling UA227 million. Commitments to HEST have been less than 2% of total Bank approvals – about 50% lower than what was planned in the MTS. While recognizing that it is a new area of intervention of the Bank, it nonetheless represents a shortcoming to selectivity and operational focus. Its slow implementation will be further analyzed in the mid-term review of the 2008 HEST strategy which is currently underway.

***Regional Integration***

The MTS positions regional integration as special focus area, in terms of regional infrastructure and institutional development. Investment in regional operations constituted 14% of total Bank

group lending in accordance with the MTS expectations. As shown in Figure 3, the Bank's investments in multinational or regional operations (ROs) have been concentrated in the infrastructure sector particularly transport (40.3%), energy (7.4%), water and sanitation (3.6%) and ICT (2.7%).

**Figure 3: Sector split of multinational approvals in UA millions for the period 2008-2010**



Source: African Development Bank Group.

Financial intermediation constituted a large share of the portfolio of regional operation approved during the review period (33%). Approximately 36% of total volume of non-sovereign transactions have had strong regional integration dimension. These include infrastructure projects serving regional connectivity objectives as well as operations financing regional development finance institutions and commercial banks for regional on-lending and multinational equity funds. While financial intermediaries and private equity funds invest in both national and multi-national projects, they facilitate the flow of capital, goods and services, management know-how and technology transfer across countries and enhance the application of sound banking and investment practice across their countries of operation.

Non-lending activities included the approval of a Regional Integration Strategy (2009-2012) and the launch of Regional Integration Strategy Papers (RISPs) for all sub-regions of Africa and support to ESWs on macro-economic convergence and regional financial integration in three sub-regions: North Africa, CEMAC and COMESA. In 2008, the Bank provided support to a multi-national statistical capacity building initiative to the tune of UA17.9 million and the African Economic Research Consortium (UA1 million) to enhance regional and local capacities for policy relevant economic research. A multi-donor regional economic workshop was also organized in 2009 by the Bank to discuss a framework for collaboration that will strengthen financial sector integration in Africa.

The Bank continued to spearhead the operationalization of the NEPAD Short-Term Action Plan (STAP) it helped to design. The AU/NEPAD Program of Infrastructure Development of Africa

(PIDA) started in May 2010 to develop a strategic framework and program for regional and continental infrastructure up to 2030.

### ***Agriculture***

The Bank has sought to align its agriculture portfolio with the MTS priorities. The Agriculture Strategy 2010-2014 aims to enhance agricultural productivity, food security and poverty reduction by: (i) improving rural infrastructure, water management and storage, and trade-related capacities for access to local and regional markets and (ii) extending the area under sustainable management for improved natural resource base resilience and to protect investments.

Most new sovereign approvals in the sector targeted productive infrastructure. The Bank also exploited its partnerships with other donors, the private sector and governments to leverage additional resources and unlock potential synergies to promote agriculture and food security. Approximately UA178 million have been channeled from the Bank's own resources to non-sovereign transactions in the agribusiness and forestry sector. The Mali Markala Sugar Project which is expected to develop 14,132 hectares of farmland and produce an annual yield of 1.48 million tonnes of sugarcane to enable Mali to be self sufficient in sugar and therefore reduce imports with a direct positive effect on its balance of payment and macro-economic resilience, saw the Bank invest UA28.9 and UA25.6 million in sovereign and non-sovereign financing respectively. Its further efforts to mobilize UA104.8 million in co-financing, illustrates the Bank's commitment to fostering Public Private Partnerships. Box 5 illustrates outcomes achieved in the agriculture sector in response to the food crisis.

#### **Box 4: Results from Response to the Food Crisis**

In response to the food security crisis, the Bank approved the Africa Food Crisis Response (AFCR) in July 2008, which was implemented over one year, targeting 28 RMCs. UA259 million were deployed to provide support to approximately 2.3 million beneficiaries with agricultural inputs and materials, as well as targeted capacity building contributing to substantive increases in crop production in targeted areas. As a result of the investment made, rice production increased six-fold from 171,533 metric tons in 2007/2008 to over 1 million metric tons in 2009/2010 across eight West African countries.

### ***Fragile States***

The Bank's Strategy for Enhanced Engagement in Fragile States guides its interventions in fragile states. To operationalize this framework, the Bank established the Fragile States Facility (FSF) and its implementation arm, the Fragile States Unit, in 2008, with a resource envelope of UA648 million in ADF and ADB allocations to assist eligible states to consolidate peace, stabilize their economies and lay the foundations for sustainable poverty-reduction and long-term economic growth. Since then, the FSF has supported 17 fragile and conflict-affected regional member states. As of March 2010, UA462 million, or 71% of the total resources of the Fragile States Facility had been disbursed or committed. The FSF has channeled supplemental financial resources to nine countries for governance, capacity building, and the rehabilitation of basic infrastructure. It cleared the arrears of two RMCs and supported targeted technical assistance and institutional capacity building operations to another sixteen RMCs mainly in the areas of public

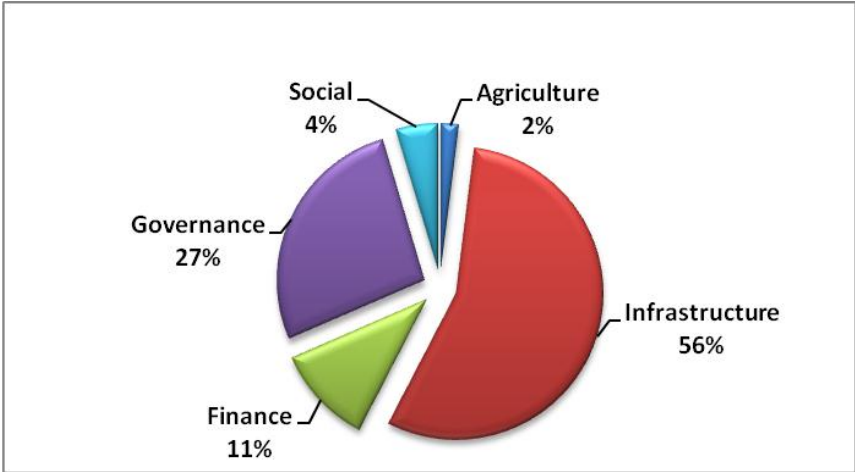
financial management, statistical capacity building and social sector delivery. The engagement of the Bank in fragile states beyond support for arrears clearance is beginning to have impact on national accountability and transparency systems, social service delivery as well as other institutional capacity required for state building.

**Middle Income Countries (MICs)**

The Bank has fine-tuned its operational approach to MICs as reflected in a Strategic Framework approved in June 2008. The strategy identifies the following priority intervention areas for the Bank in MICs: (i) enhanced competitiveness; (ii) deeper private sector investment and catalytic transactions; (iii) regional integration investment for trade expansion; and (iv) capacity building and knowledge. It aims to position the Bank as a preferred partner to deliver these priorities, offering a differentiated approach in terms of the range and pricing of its financial products; improved services delivery through efficient business processes; some limited mobilization of concessional resources; and the provision of technical assistance and advisory services.

From 2008 to 2010, the Bank Group loan approvals for MICs accounted for about UA6.5 billion, representing half of the Bank Group’s financing over this period. The financing source of these interventions is the ADB window, the Bank’s non-concessional lending arm. Figure 4 shows that Sector distribution of Bank investment in MICs aligned with the core priorities of the MTS, with infrastructure representing 56% of all financing, followed by governance operations (27%), and financial intermediation (11%).

**Figure 4: Sector Split for Bank Group Lending to MICs from 2008 to 2010**



Source: African Development Bank.

In terms of geographic distribution, Sub-Saharan Africa received the greater envelope, representing 65.2 percent of the financing. This reflects the surge in demand coming from Sub-Saharan MICs during the financial and economic crisis, in particular two large loans allocated in 2009 to South Africa (UA1.7 billion for Eskom Power Project) and Botswana (UA968 million for Economic Diversification Support Programme).

In terms of non-sovereign lending, the Bank has leveraged its investment in MICs to balance its overall non-sovereign portfolio risk profile and to enable MICs to act as regional economic

engines by extending lines of credit and equity investments in institutions registered in MICs, for on-lending and equity investments regionally, particularly in neighbouring LICs.

### **3.2.2 Cross-Cutting Themes**

The MTS emphasizes gender, environment and climate change, and knowledge management, and as cross-cutting issues to be mainstreamed in all operational activities of the Bank.

#### ***Gender***

The Bank has made notable strides in policy and institutional reforms to accelerate gender equality and women's empowerment. Gender sensitive performance indicators are now included in all operations and the Bank elevated the gender and social development function to place it more strategically in the organization. In the review period, the Bank approved an updated Gender Plan of Action (UGPA) to strategically reposition the institution to deliver on its gender equality-related commitments. The Bank also undertook gender assessments in poverty reduction, health, and education projects, and a multinational study on gender responsive budgeting. In addition, it finalized Country Gender Profiles for South Africa and Kenya and sensitized RMCs on the need to provide gender-disaggregated data at all levels. The Bank has also engaged in partnerships to facilitate collaboration, coordination, harmonization and exchange of experiences and best practices on gender mainstreaming. In this regard, the Bank joined the OECD GenderNet and the Steering Committee for the upcoming Beijing+15 events.

The Bank has increased its institutional capacity by more than doubling the gender specialists from five (5) in 2008 to 11 in 2010.

#### ***Environment and Climate Change***

The Bank has enhanced its capacity to address the emerging environment and climate change agenda. In April 2010, it created the Energy, Environment and Climate Change Department to better tackle the twin challenges of climate change and renewable energy in the continent. In 2009, the Bank approved the Climate Risk Management and Adaptation (CRMA) Strategy and undertook a preliminary assessment of 206 projects approved since 2007 in infrastructure, energy, water and sanitation, and agriculture to assess their exposure to climate risks. About 66 (32 percent) of these operations were classified as susceptible to climate change. Following this assessment, the Bank is finalizing a Climate Change Action Plan to address the identified issues, build on progress in climate change adaptation and mitigation and support institutional reform, policy, advocacy, and knowledge development for projects in climate sensitive sectors such as agriculture, water, energy and transport. The Bank is also developing a tool for screening projects for climate risks.

The Bank is supporting African countries to access global resources to help finance climate change related initiatives, while developing its own innovative mechanisms such as the Africa Carbon Support Project, the ClimDev Africa Program, the Congo Basin Forest Fund and the Sustainable Energy Fund for Africa. The Bank is an Executing Agency of the Global Environmental Facility and is finalizing its registration as a Multilateral Implementing Agency with the Adaptation Fund. The Bank is collaborating with other multilateral development Banks (MDBs) on climate change innovation through the Climate Investment Funds (CIF). Africa has thus far secured US\$810 million (UA516 million) in funding from CIF. Furthermore, at the Climate Conference in Copenhagen in December 2009, Africa's leadership requested that Africa's share of funds be channeled through the African Development Bank. In response to this

request, the Bank is developing a proposal for an Africa Green Fund to receive these new resources as well as coordinate Africa's response to climate change.

### ***Knowledge Management and Development***

The Bank's knowledge management strategy can make a substantial contribution to development and is articulated around the four pillars of generation, leverage through partnerships, dissemination and application to operational effectiveness.

This strategy is positioning the Bank as a knowledge institution with increased visibility. The introduction of the African Economic Conference jointly organized with the Economic Commission for Africa, has created a critical platform for debate and exchange of views on critical issues and development challenges facing the continent. A stronger policy analysis and dialogue role has enabled the Bank to guide RMCs in developing responses to the economic and financial crisis. This included a lead role in initiating and supporting the work of the Committee of 10 Ministers of Finance and Central Bank Governors to consolidate and channel Africa's views in international platforms, including the G-20.

The Bank has improved the quality of its flagship publications, including the African Development Report, the Selected Statistics on African Countries, and African Economic Outlook and introduced new ones such as the Africa Competitiveness Report, a joint report of the AfDB, the World Bank and the World Economic Forum.

The Bank is consolidating its activities to emerge as the lead knowledge institution on continental affairs. Specifically, statistical capacity building activities in African countries are being intensified for better measurement, monitoring and managing for development results. The Bank has also finalized the concept note for its new flagship report on financial governance in Africa, the African Governance Outlook, which will focus on core areas of the Bank's mandate and exploit its comparative advantage to lead on financial governance.

## **3.3 Enhancing Institutional Effectiveness for Results**

### **3.3.1 Results and Performance**

The MTS proposed a set of Key Performance Indicators (KPIs) to reinforce the centrality of portfolio management, leading to greater accountability and effective delivery at every level. An Action Plan on Quality and Results has also been launched as part of the MTS. It is articulated around five key areas: (i) enhancing the quality at entry of strategies and operations; (ii) instilling a results-based supervision culture; (iii) strengthening learning and accountability through evaluation; (iv) improving data and information systems; and (v) accelerating decentralization and harmonization for better results. The Bank's performance indicators based on the 'One Bank' Results Measurement Framework are set to measure organizational effectiveness and institutional efficiency.

Table 2 provides a snapshot of the Bank's performance at mid-term against the KPIs. Overall, Bank delivery is on track and it can be expected that targets will be met by the end of the MTS period. While the Bank has done well in most areas, in others performance has been insufficient, particularly in terms of disbursement, operations supervision, the share of projects managed by field offices, the percentage of staff in field office, staff permanent attrition rate, administrative budget implementation rate and expenses allocated to field offices.

**Table 2: AfDB Corporate Performance**

Corporate Key Performance Indicators	Baseline Date/Period	MTS Target Date/Period	Baseline value	MTS Target value	Achievement At the end of 2010
<b>Bank Group Financing</b>					
ADB Public Lending (UA billions)	2003-2007	2008-2012	4.6	7.1	6.7
ADB Private Lending (UA billions)	2003-2007	2008-2012	2.6	5.1	3.3
ADF Financing (UA billions)	2003-2007	2008-2012	7	10.5	5.5
<b>Knowledge Management Products</b>					
CSPs (#)	2003-2007	2008-2012	192	135	63
CPRs (#)	2003-2007	2008-2012	45	85	57
ESWs and Related Papers (#)	2007	2012	81	85	134
<b>Disbursement</b>					
<b>Bank Group Disbursement Amount</b>					
ADB Public Amount (UA millions)	2003-2007	2008-2012	2833	3310	2791.3*
ADB Private Amount (UA millions)	2003-2007	2008-2012	479	3910	1471.6*
ADF Amount (UA millions)	2003-2007	2008-2012	3149	5740	2875.4*
<b>Bank Group Disbursement Ratio (Investment only)</b>					
ADB Public Disbursement Ratio (%)	12/2007	2012	19	25	18%*
ADB Private Disbursement Ratio (%)	12/2007	2012	40	50	33%*
ADF Disbursement Ratio (%)	12/2007	2012	16	25	16%*
<b>Portfolio Management</b>					
Problematic Projects (%)	12/2007	12/2012	9	7	4%
Operations Supervised Twice a Year (%)	12/2007	12/2012	30	75	49%*
Projects Managed by Field Offices (%)	12/2007	12/2012	0	35	19%*
Impaired Loan Ratio (Non-Sovereign only) (%)	03/2008	12/2012	4.39	<5	0.79%
<b>Process Efficiency</b>					
Lapse of time between approval and first disbursement (m)	12/2007	12/2012	21.3	8	11.1*
Lapse of Time for Procurement (w)	12/2007	12/2012	68	35	57.2*
Timely PCR Coverage (%)	12/2007	12/2012	25	75	96%
<b>Cross-cutting Areas</b>					
Gender Mainstreaming in Operations (%)	12/2007	12/2012	0	45	100% <sup>†</sup>
Climate Proofing of Investment Projects (%)	12/2007	12/2012	0	12	100% <sup>†</sup>
<b>Human Resources (PL)</b>					
Field Based (%)	2008	12/2012	27	31	26%*
Gender Balance (%)	12/2007	12/2012	23	34	27%
Staff Age Diversity (%)	12/2007	12/2012	38	45	44%
Staff Attrition Rate (%)	12/2007	12/2012	21	10	28%*
<b>Budget and Expenses</b>					
Administrative Budget Implementation (%)	12/2007	12/2012	89	95	87%*
Field Offices Expenses (%)	12/2007	12/2012	9	20	12%*
Operations Expenses (%)	12/2007	12/2012	50	65	60%
Fixed Staff Costs (%)	12/2007	12/2012	71	71	61%
Capital Budget Implementation (%)	12/2007	12/2012	78	90	57%

Note: \* Indicates areas of sub-optimal performance; † Indicates KPI that may need to be adjusted.

Source: African Development Bank Group.

### **3.3.2 Decentralization**

Corporate decentralization is critical for enhanced institutional responsiveness and effectiveness. The Bank, has signed Host Country Agreements for 26 field offices. As at end 2010, 23 are equipped and operational and 296 staff members have been posted in the field. The necessary IT investments have been made to facilitate the process. Revisions to the delegation of authority matrix have led to greater empowerment of Field Offices in areas such as the signature of loans in country. More work remains to be done with respect to moving tasks and business processes and transferring decision-making and authority to Field Offices..

An independent evaluation has established a positive link between decentralization and a number of the Bank's key performance indicators. To benefits from this mode of operation, Management is fine tuning its implementation plan for decentralization by focusing on four critical areas: (i) expanding the scope of Bank services in the field; (ii) enhancing HR capacities for field operations; (iii) strengthening operations policies and the role of field offices in operations; (iv) ensuring adequate logistical support and office space. The real challenge, however, remains the actual transfer of high-end managers, and professionals to ensure portfolio management and project supervision in the field.

### **3.3.3 Streamlined Internal Processes**

The Bank is fulfilling its commitment towards streamlined internal processes.

The Chief Operating Officer (COO) position created in 2007 and the strengthening of the Senior Management Committee (SMCC) chaired by the COO represent important milestones in the reform agenda. They are instrumental to overall coherence, coordination and optimal effectiveness across the Bank, alignment of resources to strategic priorities, and enhanced monitoring and management of corporate performance.

The Operations Committee (OpsCom) established in 2006 is another mechanism to improve delivery and results. It is responsible for operations review and approval processes to sharpen the country focus and strategic selectivity of the Bank Group's activities, as well as overseeing program quality, portfolio management, operational outcome and results. OpsCom is valued as an institutional coordination mechanism, an instrument for quality control and a forum in which Country Teams can secure regular guidance from Senior Management<sup>4</sup>.

The budget systems reform also equipped the Bank with better tools to achieve its mandate. Budget flexibility was enhanced through fungibility and devolved authority.

The combined impact of these reforms during the MTS is notable, especially with regard to strengthening of the culture of improved delivery and results. However, a stronger decentralization and devolution processes will improve the reach of the reforms.

### **3.3.4 Strengthening Risk Management Capacity**

In light of the growing volume of non-sovereign transactions (including in ADF countries) and following the GCI-VI, the Bank has made strengthening risk management capacity a key priority and Management is taking steps to ensure that risk management is approached in a rigorous, systematic and holistic way. The Bank is defining its risk appetite as the first significant step towards the development of the Bank Enterprise Risk Management framework. The objective is

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<sup>4</sup> Assessment by Management 2009 provides detailed reference.

to reinforce the Bank's risk governance structure for the credit approval process and operational risks as the size of the portfolio grows and the share of PSO increases.

### **3.3.5 Leveraging Resources to Deliver**

#### ***Staffing***

A key institutional challenge facing the Bank is its ability to attract, retain and effectively utilize qualified staff in order to deliver on its mandate.

The restructuring of the HR function, while still in progress, has improved the Bank's capacity to mobilize additional staffing levels. In 2009, a total of 279 new staff assumed duty, representing 17% of total staff at post. During the year 2010, 244 new staff joined the Bank, of which 26 were young professionals (YPs). Internal capacity was further enhanced with 152 promotions through internal competition and in-situ recommendations. However considerable challenges remain. Currently, the Bank reflects a vacancy rate of 13%<sup>5</sup>, partly explained by a large number of new budgeted positions and this needs to be reduced to 5%. While further recruitment is in progress, the high premature attrition rate is also adversely affecting the Bank; it currently stands at 28% against the target of 11%. Several initiatives are being put in place to improve staff retention, including enhancing the performance management system, career development framework, and management training.

#### ***Information Technology (IT) support***

In the IT area, the Bank undertook a number of initiatives to strengthen its information systems in support of more dynamic portfolio management. The SAP functional upgrade is ongoing and will allow operations to capture information on the achievement of outputs and outcomes and report on KPIs in real time. In addition to the SAP upgrade, the Bank is developing a Results Reporting System aimed at strengthening its ability to track and demonstrate its contribution to development outcomes.

#### ***Financials***

The Bank's role of providing counter-cyclical support during the crises led to a significant departure from the MTS assumptions on lending volumes. Frontloading and accelerated disbursements mobilized in line with the counter-cyclical role adopted by the Bank, has resulted in a stronger growth of the balance sheet that reached UA19.1 billion by the end of 2010 against an expected UA13.75 billion.

The increase in fast disbursing sovereign commitments had an immediate impact on the expected composition of the Bank's loan approvals with the private sector representing 21% of approvals instead of 39% targeted in the MTS.

Using a strategic mix of numerous but small high risk and a few large but low risk operations, the Bank has managed to maintain its weighted average risk rating below its target range of 3-4, standing at 2.25<sup>6</sup> by end 2010. This low rating allows the Bank to better face unexpected events and stay within an acceptable risk rating.

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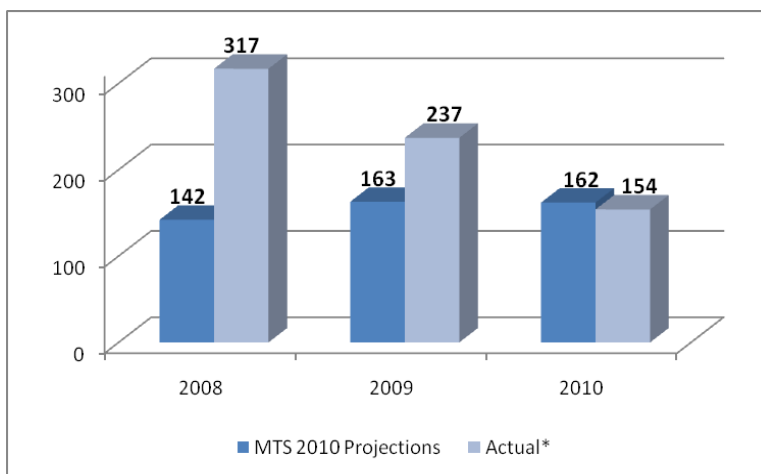
<sup>5</sup> As at 31 December 2010, PL staff at post.

<sup>6</sup> The Bank's Group classifies the lowest credit risk as 1 and the highest as 10.

As in the case of ADB, by the end of 2009, the financial crisis had an impact on ADF’s loan approvals which increased to UA1,854 million compared to initial projections of UA1,082 million. This resulted in a significant utilization of the ADF’s commitment capacity and motivated the early launch of ADF-12 replenishment.

Since the beginning of the MTS, the Bank Group has recorded strong net income driven by exceptional revenues for ADB with write-backs from provisions on Cote d’Ivoire’s arrears in 2008 and recovery from the financial crisis of the investment portfolios in 2009. However, because of its special financial structure subject to low interest rates, ADF recorded lower than expected surpluses and even a loss in 2010. Figure 5 shows the actual Bank’s Group Income against MTS.

**Figure 5: ADB Group Net Income Variance Analysis**



Source: FNVP, AfDB.

Note: 2010 figures are based on year-end provisional and unaudited statements subject to changes.

### ***Partnerships***

During the MTS period, the Bank established key strategic partnerships with various bilateral and multilateral development finance institutions, knowledge institutions, African civil society organizations, regional economic communities and private sector organizations. This resulted in significantly increased co-financing with partners which reached UA19.16 billion in 2009, compared to UA8 billion in 2008. In 2010, the Bank approved 26 co-financing projects, comprising 20 national projects and six multinational projects for a total combined cost of UA 5.48 billion. This figure includes the Bank Group’s contribution, that of external donors, and resources from governments and local financiers. Bank Group’s contribution to co-financed projects in 2010, stood at UA731.8 million, which was a significant decline from its 2009 peak of UA3.89 billion. The sector that benefited most from co-financing was infrastructure, mainly energy, mirroring the Bank’s MTS priorities.

The Bank is closely collaborating with other development agencies, and hosts, for example, the Infrastructure Consortium for Africa and the Congo Basin Forest Fund. Through instruments such as the African Financing Partnership, the Bank is taking the lead on leveraging the market skills and knowledge of DFIs to mobilize private sector resources for large scale projects, particularly in infrastructure. In 2009, the AfDB Partnerships Forum was launched as an annual

platform to convene major partners globally to enhance dialogue on partnerships management and resource mobilization.

The flat level of ODA and the arrival of emerging countries with great opportunities on the international scene have spurred a renewed interest of the AfDB for South-South and Triangular Cooperation (SSC). An example of best practice has been the co-financing agreement of USD400 million dollars signed with Korea and the USD500 million with the IsDB. Also, an Enhanced Private Sector Assistance (EPSA), a US\$1 billion co-financing facility with Japan was fully implemented in 2010 and the second phase will be launched in 2011. The US\$45 million Fund for African Private Sector Assistance (FAPA) which provides grant funding for technical assistance and capacity building for the Bank's public and private sector clients was converted into a multi-donor facility in 2010 with Austria. The AfDB is enhancing SSC in order to ensure a better sharing of common development experience and facilitate the transfer of capacities and technologies in the African Least developing countries. An India-Africa Cooperation Trust Fund and SSC Trust Fund with Brazil were established. New thematic funds on microfinance, migration and governance were also established in 2009-10.

#### **4. GOING FORWARD**

Going forward there is a number of fundamental issues that should be addressed. These are: (i) relevance of the strategy; (ii) response to external, institutional and operational challenges; (iii) financial objectives; and (iv) long term strategy that will guide the Bank's intervention beyond the MTS.

##### **4.1 Strategic Focus**

The main conclusion of the MTR is that the MTS remains relevant in a post crisis environment and can credibly continue to guide Bank operations for the remaining period. The strategy allowed the Bank to respond well to new challenges while staying focused. It fits strongly with the imperatives of the continent and specific needs of clients. Selectivity and focus have delivered strong results in terms of financing targets. The core priorities of the MTS will continue to serve the over-arching goal of strong sustained and shared growth. Consequently, the Bank should maintain its strategy of selectivity and operational focus on infrastructure, private sector development, governance and higher education, and through it support regional integration, fragile states, MIC and agriculture. These are the areas of comparative strength, where the Bank has developed experience and expertise and can add value in terms of development impact to RMCs. The Bank should also continue to integrate and mainstream gender, climate change and environment and knowledge management in the development agenda.

While being selective, the Bank must continue to show flexibility to deal both with existing and new challenges as long as they are within its mandate. The Bank must be open to new ideas by listening and learning from clients in terms of areas of engagement and use of instruments. It must also learn from experiences made within its field level operations. In a post-crisis environment, new approaches, new strategies and new policies will be required to better respond to the needs of client, including staying relevant to MIC's. Equally, there will be need for flexibility in terms of both the relative importance of the four core operational areas and within each of them.

In order to reinforce the ‘One Bank’ approach in terms of operations and results, strong linkages and better synergies will be created to ensure that the four areas of focus are more intertwined and mutually reinforcing. Better integration among instruments and complexes will also help optimize result and impact.

#### **4.2 External Challenges and Opportunities**

The Bank will continue to operate in a very fluid and dynamic environment. The MTS, being a five year document, was designed to be a framework rather than a blueprint. There is need to recognize both emerging and new changes that have taken and are taking place since the inception of the MTS. During the global crisis the Bank responded to the pressing and new needs of RMC’s while maintaining its focus. This agility will continue to guide the implementation of the MTS during the next two years.

One key issue for the Bank for the remainder of the MTS will be without doubt the impact of events in some RMC’s on regional outlook, its contagion effect and its consequences on oil and food prices due to geo-political and strategic considerations, and its impact on investors’ confidence, financial markets’ reaction and ultimately on the Bank’s operations in the near term. There will be consequences on the Bank’s location, its decentralization policy, its HR strategy, its risk taking capacity and its net income. The greatest challenge will be to preserve Bank’s operations and ensure business continuity under difficult conditions.

The Bank will need to protect its investment, review with RMC’s projects which are in the pipeline, engage with them on what new and enhanced role the Bank can play in shaping the new socio-economic landscape of these RMC’s in the light of new challenges. It will coordinate with other partners in order to be part of a coherent framework for intervention. The Bank will need to move quickly to assess the scale, reach and implications of such events in order to determine whether new policies are required. It must lead in developing strategies for shared growth, job creation, and economic diversification. Recent political and social in North Africa and in some RMCs events have underlined the continued need for the Bank to support the promotion of good governance, participation, inclusion, transparency and accountability.

#### **4.3 Institutional and Operational Challenges**

The review shows that while the Bank’s strategy is pertinent and relevant, there are a few gaps in its implementation. The Bank will be required to continue to work to narrow these by improving execution and delivery, in particular by:

**Better Managing for Development Results.** The Bank is transitioning to a period of comprehensive and ambitious operational reform, built on a sharper strategic focus, a reinforced mandate, and an emphasis on results. To capture anticipated results arising from this reform, the Bank has put in place a robust measurement framework which allows both for reporting success as well as highlighting areas requiring additional focus. The Bank’s efforts towards improved capacity and results and better measurement of impact should continue to focus on the following main areas: (i) business processes and practices; (ii) decentralization; (iii) quality at entry and managing for results; (iv) Institutional efficiency; (v) improved human resources; (vi) information technology services; (vii) alignment with international best practices; (viii) better communication; (ix) budget reforms and discipline; (x) risk management and (xi) governance, controls and safeguards. Reforms targeting these areas are underway.

**Pursuing Decentralization.** In light of the importance and critical role of Decentralisation in strengthening delivery and results, the Permanent Committee on the Review and Implementation of the Decentralisation of the Bank's Activities (PECOD) was set up in January 2011. PECOD will monitor progress across all parts of the Bank to ensure the timely and efficient implementation of AfDB's Decentralisation Strategy. The committee is currently in the process of finalising the Bank's Decentralisation Roadmap for the period 2011 – 2015. PECOD will also be looking carefully at levels of delegation to enhance the role of Field Offices in all aspects of portfolio development and management and the provision of analytical services, and will recommend changes to the Bank's Delegation of Authority Matrix accordingly.

**Focussing Better on Higher Education.** Higher education, science and technology is a new area of intervention, but critical for Africa's competitiveness. The mid-term review of the 2008 HEST strategy is currently underway. It will analyze in depth the reason of its slow implementation and inform an action plan going forward. To improve HEST performance, during the remaining period of the MTS, the Bank will focus on (i) linking of higher education, technical and vocational education to the productive sector; (ii) increasing emphasis on the promotion of Science, Technology and Innovation (STI); and (iii) ensuring cross sector collaboration within the Bank as well as with other partners in the development of interventions. This will be achieved through a more innovative approach and use of instruments, including among others, sector budget support, private sector lending and enhanced partnerships.

**Fully Integrating Private Sector Development in Bank's Culture.** The Bank should mainstream private sector development in view of its critical importance as a key driver of growth, employment and poverty alleviation in RMCs. Currently, the private sector intervention is concentrated on non-sovereign operations, but for the Bank to strengthen its support to its clients, it should be increasingly involved in promoting an enabling environment for private sector development, in building capacity with special focus on home-grown small and medium-sized enterprises (SMEs) which form the backbone of many African economies. It should also help RMC's mitigate risks, lower costs of doing business and attract private capital flows for financing development, with particular emphasis on alternative financing for infrastructure.

**Better Managing Knowledge.** In addition to being analytical and anticipatory, the Bank should sharpen its focus on providing timely knowledge solutions to RMCs on policy issues of high relevance such as youth unemployment, job creation, shared and sustainable growth, attracting private capital to Africa, and economic diversification. The Bank should continue to position itself as a voice for the continent on global economic and financial matters, working jointly with OECD/DAC countries, emerging economies and other multinational institutions. It should also become a platform for sharing experience and best development practices on the continent.

**Pursuing Gender Mainstreaming.** The Bank shall continue to mainstream gender into all operations. New and relevant performance indicators that emphasize gender balance, equal opportunity and empowerment are required to inform policy and practice on how these strategic issues are being addressed.

**Accelerating Response to Climate Change.** Africa is one of the continents that will be most affected by climate change with devastating effects on socio-economic development. The challenges for the Bank will be to continue to help RMC's mainstream climate change in their development agenda while ensuring sufficient resources for adaptation and mitigation are

available. The Bank should more quickly to propose the development of the Africa Green Fund as a platform for resource mobilization to tackle climate change.

**Ensuring Food Security through Partnership.** Rising food prices and food security remain key challenges. Through its areas of focus in infrastructure and private sector, the Bank will strengthen its support to agriculture both at the national and regional level. Given the magnitude of the task, success will require the Bank to define complementarity and division of labour with other donors and financing institutions.

**Forging New and Creative Partnerships.** As resources are scarce and demand very high, the Bank needs to be selective to attain high development results from its interventions. The Bank will complement its strategy of operational focus with that of selective partnership to maximize development impact in RMC's. The Bank will forge new and creative partnerships that are based on complementarity, strategic fit and provide mutual benefits. The mobilization of co-financiers, particularly private financing, should remain an operational priority to enhance the Bank's catalytic investment role.

Annex 1 presents the detailed agenda by areas of priority for the remainder of the MTS, spelling out actions being undertaken and their time frame while Annex 4 sets out the Complex specific implementation plans with key strategic initiatives and their completion dates.

#### **4.4 Financing Objectives**

The Bank will have to maintain financial solidity and long-term sustainability. It should strike the right balance between sources and uses of income. To achieve this, the Bank should continue and accelerate the development a new income model and implement the enterprise risk management framework with a clear definition of the Bank's risk appetite level. To safeguard its financial integrity, the Bank will have to monitor the growth of its outstanding portfolio to ascertain that the risk profile remains within prudential limits and to ensure that it continues to generate an acceptable level of net income in order to continue to strengthen reserves, and to fund key development initiatives.

In the period 2008-2010, the MTS financing targets have been met and surpassed, but the achievements fell short of the revised targets contained in the PBD (Bank Group financing target for 2010 was UA5,586 million; achievement at the end of 2010 was UA3,741.53 excluding HIPC, ADB special assistance SRF and other Grants). While intervening factors are likely to explain this weak performance in 2010, adjustments to both the pipeline and capacity to deliver must be made so that the Bank fulfils its GCI-VI commitments.

For the remainder of the MTS the Bank should, review and adjust its financial targets in Table 3 in light of the new opportunities and challenges and GCI-VI requirements to improve delivery and development results.

**Table 3: 2011 – 2012 Financing Targets (in UA billion)**

<b>Window</b>	<b>2011</b>	<b>2012</b>	<b>2011-2012</b>
<b>ADB Public</b>	2.490	2.324	4.814
<b>ADB Private</b>	1.110	1.276	2.386
<b>ADF</b>	1.900	2.100	4.000
<b>NTF</b>	0.020	0.020	0.040
<b>Bank Group</b>	5.520	5.720	11.24

Source: African Development Bank Group.

#### **4.5 Long Term Strategy**

Management agrees that the Bank should transit from a short-term to a long-term planning horizon. In this context, the Bank should start to give consideration to a successor document to the MTS. A long term strategy (LTS) could be developed and the Bank's 3-year rolling Programme and Budget Document (PBD) used to operationalize the LTS. The MTS would then no longer be required under its current form<sup>7</sup>. The time frame for completion of the LTS should be established to avoid a strategy gap at the end of the current MTS 2008-2012. The process should include a wide and extensive consultation with RMC's, senior management and staff, shareholders and stakeholders at all levels – beneficiaries, civil society, private investors and financiers, academic and research institutions and partners. These inclusive consultations will be supported by in-depth analytical work, with a view to reaching a common agreement on what should be the strategic direction and operational focus of the Bank to best fulfill its mission in the longer time frame.

#### **5. CONCLUSION**

The Bank's strategy to focus on selected priorities in the MTS, while retaining some degree of flexibility, has delivered results, at a time of great economic turbulence and uncertainty. It has also reacted swiftly and decisively to new challenges that were not factored in at the time of the MTS, thus showing responsiveness to stay relevant to the needs of RMC's. There are still challenges to improve the execution and delivery of the Bank's mandate. These will be addressed by improving operational effectiveness, enhancing organizational efficiency and greater emphasis on results and decentralization.

The main and overriding proposition in the MTS review is to retain the core areas of MTS. However some degree of flexibility will be required to respond to the new events happening in some RMC's. The Bank strategy of selectivity will be complemented by a strengthened partnership to maximize development result. The Bank has to forge ahead with an improved implementation of its strategic objectives for the remainder of the MTS period.

To that end, Management proposes to the Boards the endorsement of the MTS strategic priorities for the remainder of the MTS period 2011-2012.

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<sup>7</sup> The Asian Development Bank used a similar process when it introduced its Long-Term Strategy 2020. It then felt that a Medium-Term Strategy was no longer required and was replaced by a 3-year rolling plan (Work Program and Budget Framework) to operationalize and implement the Strategy 2020.

## Annex 1

### Agenda for the Remainder of the MTS

Recommendations	Area of Focus	Required Actions	Timeframe
<b>1. Maintain focus on Priority Areas</b>	• Infrastructure	• Reduce the infrastructure gap on the continent by (i) scaling up investments; (ii) reduce fragmentation by increasing project size where appropriate; and (iii) emphasizing projects that promote regional integration and PPPs.	Immediate and ongoing
	• Private Sector	• Finalize and rollout Partial Risk Guarantee instrument	Q1 2011
		• Enhance support for Private sector development in general and explore innovative and bold approaches to encouraging private sector investments in LICs in particular	ADF-12 MTR Immediate and ongoing
	• Governance	• Finalize Private Sector Development Policy	Q2 2011
		• Finalize Energy Sector Policy	Q2 2011
	• Higher Education	• Independent evaluation of PBOs	Q1 2011
	• Regional Operations	• Adoption of consolidated PBO policy	Q2 2011
		• Elevate Bank's effectiveness in supporting skills development and higher education	Immediate and ongoing
• Fragile States	• Independent evaluation of regional operations	Q4 2011	
• Climate Change	• Adoption of framework paper on project selection and prioritization, including stronger link to performance	Q1 2011	
	• Independent evaluation of ADF assistance to fragile states	Q2 2011	
• Gender	• Implementation of climate change action plan	ADF-12 MTR	
<b>2. Become more Responsive and Innovative</b>	• ADF-12 Progress Report	• Adoption of Energy Policy	Q2 2011
	• Emerging political and social changes in the Region and elsewhere	• Update Gender Action Plan- 2011 onward; Adoption of Revised Gender Strategy	Q42011
		• Preserve Bank's operations ensure business continuity and remain relevant to RMCs.	Immediate and ongoing
	• Implementation of ADF core operational priorities: infrastructure, governance, regional integration and fragile states	ADF-12 MTR	
• Resource allocation and use, including implementation of FSF Pillar II and potential modification to the PBA	ADF-12 MTR		
• Review of GCI Related Reforms	• OPEV to complete a review of progress in meeting GCI reform commitments	Q3 2012	
• Paris Declaration on Aid Effectiveness	• Monitor implementation of Aid Effectiveness Road Map	Ongoing, ADF-12 MTR	

	<ul style="list-style-type: none"> <li>• Graduation Policy</li> <li>• Environmental and Social Safeguards</li> <li>• Disclosure, Communication and Civil Society Engagement</li> <li>• Policy Development and Reviews</li> <li>• Private Sector Development Policy</li> <li>• Policy Based Loans Policy</li> <li>• Strategic partnerships</li> <li>• Corporate Strategy</li> <li>• Urban Development Strategy</li> <li>• Managing GCI Resources and Large Loans</li> <li>• Income Model</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of graduation policy</li> <li>• Adoption of Revised Environmental and Social Safeguards Policy and Operational Guidelines</li> <li>• Adoption of Revised Civil Society Engagement Framework</li> <li>• Policy reviews for priority sectors</li> <li>• A comprehensive policy for the Private Sector Development</li> <li>• Enhanced value added of AfDB contribution in budget support operations</li> <li>• Establish creative and selective partnerships and co-financing arrangements</li> <li>• Development of Long-Term Strategy</li> <li>• Update the Bank's approach</li> <li>• Draft policy guidance on how the Bank should approach the case of large loans sought by RMCs</li> <li>• Develop a comprehensive income model integrating loan pricing, income allocation and capital adequacy framework</li> </ul>	<p>Q1 2011</p> <p>Q4 2011, ADF-12 MTR</p> <p>Q3 2011</p> <p>Q4 2011</p> <p>Q2 2011</p> <p>Q2 2011</p> <p>Immediate and ongoing</p> <p>Q4 2012</p> <p>Q2 2011</p> <p>Q2 2011</p> <p>Q2 2011</p>
<b>3. Bold and time-bound Decentralization</b>	<ul style="list-style-type: none"> <li>• Decentralization</li> </ul>	<ul style="list-style-type: none"> <li>• Decentralize and de-concentrate staff to field offices</li> <li>• Implementation of delegation of authority matrix for procurement, fiduciary safeguards and operations</li> <li>• Development of Decentralization Guidelines</li> </ul>	<p>Immediate and ongoing</p> <p>Q1 2011</p> <p>Q4 2011</p>
<b>4. Become more Anticipatory and Analytic</b>	<ul style="list-style-type: none"> <li>• Knowledge Management and Development Strategy</li> <li>• Resources Allocation</li> <li>• Knowledge products</li> </ul>	<ul style="list-style-type: none"> <li>• Execute knowledge management and development strategy more aggressively</li> <li>• Promote knowledge-driven resources allocation</li> <li>• Strengthening of Bank's Group flagship publications (especially recently launched series, such as regional and country infrastructure reports)</li> </ul>	<p>Immediate and ongoing</p> <p>Immediate and ongoing</p> <p>Immediate and ongoing</p>
<b>5. Strengthen capacity to</b>	<ul style="list-style-type: none"> <li>• Internal Capacity Development</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake comprehensive internal capacity development – reduce the vacancy rate by hiring top</li> </ul>	<p>Immediate and ongoing</p>

deliver results	notch professionals across the board		
• Fine Tuning	<ul style="list-style-type: none"> <li>• Continue to fine-tune ongoing efficiency seeking and results-oriented corporate reforms, to better leverage its broader resource base</li> </ul>	Immediate and ongoing	
• ADF-12 Results Measurement Framework (RMF)	<ul style="list-style-type: none"> <li>• Adoption of supervision guidelines</li> <li>• Monitor of implementation of ADF-12 Results Measurement and revise targets/indicators as needed</li> </ul>	Q4 2010 Ongoing; ADF-12 MTR	
• Human Resources (HR)	<ul style="list-style-type: none"> <li>• Decentralisation of HR functions</li> <li>• Adoption of updated Staff Compensation Framework and Retirement Plan</li> </ul>	Q1 2012 Q1 2012	
• Fiduciary Safeguards and Procurement	<ul style="list-style-type: none"> <li>• Monitor the effective implementation of Bank Group’s Fiduciary Safeguards, and; the submission of project audit reports and adherence to financing agreements by borrowers</li> <li>• Independent Annual Post Procurement Review of (sample) Bank Group operations</li> <li>• Periodic audit by OAGL of field offices</li> </ul>	Ongoing; Annual Report to the Board  Annual Ongoing; Q1	
• Risk Management Capacity	<ul style="list-style-type: none"> <li>• Implementation of an enterprise risk management framework</li> </ul>	2011 and Q4 2012?	
• External Offices	<ul style="list-style-type: none"> <li>• Establishment of offices in Non-Regional member States</li> </ul>	Q1 2011	
• Budgetary Minimization of Board Enlargement	<ul style="list-style-type: none"> <li>• Identify measures to minimize the budgetary impact of the Board enlargement within the Bank’s budget and to give consideration to Board efficiency</li> </ul>	Q4 2011	

## Annex 2

### Bank Strategic Framework 2008-2012

<b>Operational Selectivity</b>
<ul style="list-style-type: none"><li>• Vertical focus on four key areas: Infrastructure, Governance, Higher Education &amp; Vocational Training, and Private Sector</li><li>• Horizontal emphasis on Regional Integration, Fragile States, and Client-responsive engagement, in particular in MICs</li><li>• Selective support of agricultural development and health-related MDGs</li><li>• Mainstreaming of crosscutting themes: Gender, Environment and Climate Change</li></ul>
<b>Results and Performance</b>
<ul style="list-style-type: none"><li>• Alignment of business processes with results and performance focus at project preparation, implementation and evaluation level</li><li>• Improved monitoring of results both at operational and non-operational level through key performance indicators</li><li>• Mainstreaming of results measurement through improved statistical and database management</li><li>• Publication and dissemination of flagship reports on <b>selected topics in line with the Bank's sector focus</b></li></ul>
<b>Decentralization</b>
<ul style="list-style-type: none"><li>• Enhanced delivery of products and services through field office presence and improved field office infrastructure</li><li>• Decentralization of business processes through delegation of authority and operational involvement of field office staff</li><li>• Further deployment of sector staff to field offices to strengthen project monitoring and implementation</li></ul>
<b>Streamlined Internal Processes</b>
<ul style="list-style-type: none"><li>• Embedding of operational selectivity and results focus in organizational structure through creation of new departments</li><li>• Integration of strategic planning, programming and budgeting; introduction of results based budgeting and performance monitoring to ensure optimized allocation of resources</li></ul>
<b>Staffing, Knowledge, Financials, and Partnerships as Foundation</b>
<ul style="list-style-type: none"><li>• Implementation of new HR strategy to strengthen allocation of staff and skills</li><li>• Improvement of statistical capacity and publication and dissemination of flagship reports on selected topics in line with the Bank's sector focus</li><li>• Review of the Capital Adequacy Framework to ensure safeguarding the Bank's financial integrity and maintaining the AAA rating</li><li>• Work in more effective partnerships with other development agencies</li></ul>

## Annex 3

### Financing Targets

Figure 1: Split of Lending by Window

(MTS Target vs. the Achievement as at December 2010)

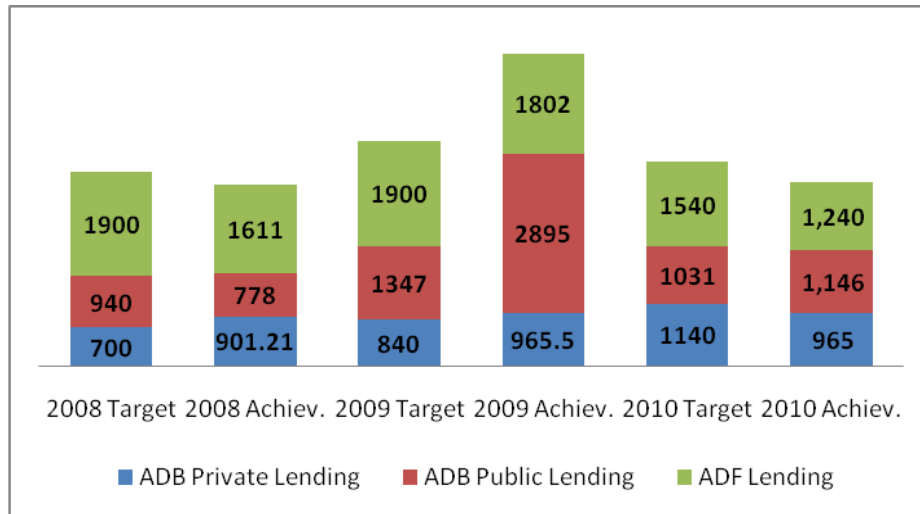
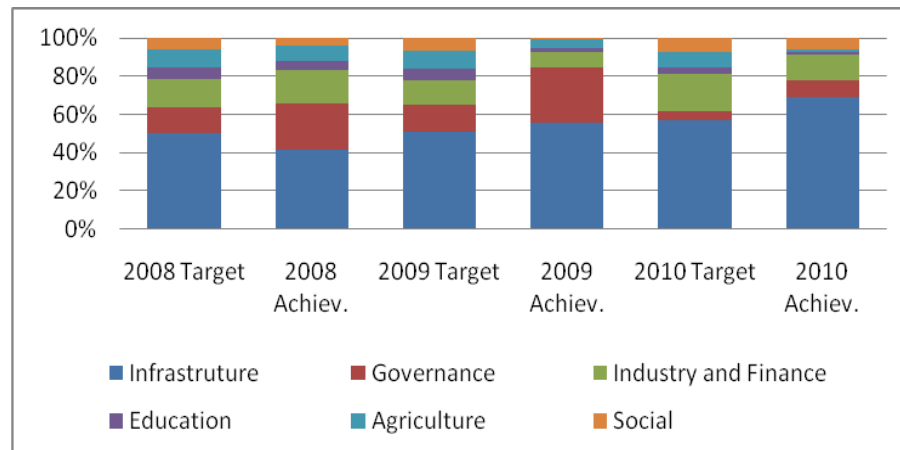


Figure 2: Sector Split of the Lending

(MTS Target vs. the Achievement as at December 2010)



## **Annex 4**

### **Impact of Envisaged lending Program on Bank's Financials**

#### **End of MTS Financial Prospects**

- ADB's allocable income<sup>8</sup> will range between UA 135 million and UA 177 million over the next 3 years.
- ADF resource capacity should remain within its current level while its financials are expected to show a persistent deficit until 2012.
- ADB's outstanding portfolio (including equity participations) is forecast to grow from UA 7.77 billion as of 30.06.2010 to UA 13.28 billion by the end of 2012.
- Thanks to the recently approved General Capital Increase of 200% with 6% paid-in capital, the Bank's financial capacity should remain sound with all prudential ratios below the critical limit of 80% although the RCUR should reach 77% by 2012.

The growth of the private sector in line with shareholders' request to increase the Bank's relevance to LICs should lead to a breach of the non sovereign RCUR limit of 40% by the end of the MTS period. As this limit was already increased from 20% to 40% in the 2009 Capital Adequacy in order to cope with the expected scaling up of PSO, it is expected to be revised upwards to account for increased exposure to LICs. Nevertheless PSO will continue to stress the overall RCUR which calls for a clear strategy to decrease such pressure especially in regards to equity participations investment and exit strategies as well as better structuring of transactions in LICs with the use of innovative and risk sharing instruments.

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<sup>8</sup> Allocable income equals net income for 2011 and 2012 but for 2010 it excludes from the projected net income of UA 109 million provisions for impairments and translations gains totalling UA 26 million as of 30.06.2010.

## Annex 5

### Staffing Implications under MTS 2008-2012

Figure 1: Split Operations PL – Non-Operations PL

(MTS Target vs. the Achievement as at as at December 2010)

