

# **Progress Report on Institutional Reforms**

**Background Paper**

ADF-11 Replenishment: Third Consultation  
September 2007  
Bamako, Mali



**AFRICAN DEVELOPMENT FUND**

## **Executive Summary**

This Report is an update to the Deputies on the Progress of the implementation of the Core 2007 Reform Agenda which are intended to strengthen the Bank's operational effectiveness.

HR reforms are on track with Enhanced Recruitment Campaign having met the agreed target of reducing the vacancy rate to less than 5% at end August 2007. New Staff Performance Evaluation System and Compensation Framework should be finalized before end 2007 and rolled-out on 1st January 2008.

Business Process Reforms with streamlined Operational Programming, Review Processes, new Delegation of Authority and revised formats for key operational documents and restructured Procurement and Financial Management are well advanced for delivery before end 2007 and effective in January 2008.

The implementation of the approved Decentralization Strategy is nearly completed and has resulted in significantly increasing the visibility of the Bank in RMCs. A customized staffing format is being implemented in Country/Regional Offices and IT capabilities have been enhanced.

The new Budget Management Regulatory Framework has been adopted. Country budgeting has been introduced under the 2008 Budget process, including the related accountability and safeguards mechanisms (Key Performance Indicators - KPIs - and Budget ceilings). The next phase will focus on introducing full fungibility and establishing a multi-year resources & efficiency Plan.

Rigorous, effective and timely implementation of the changes, with adequate sustainability mechanisms and enforcement of institutional culture change through effective communication are recognized as the continuing challenges of the Reform Agenda.

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# **PROGRESS REPORT ON INSTITUTIONAL REFORMS**

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## **1. Background**

1.1 This Report is an update to the Deputies on the June Progress Report on the implementation of the Core 2007 Reform Agenda. It will be recalled that there are a wide range of reforms and improvements being implemented throughout the Bank. However, in April 2007, Senior Management agreed on a set of reforms which are intended to make critical contributions towards meeting the key strategic objectives of the institution i.e., delivering better and sustainable results to Regional Member States (RMCs) to ensure development effectiveness. This will be achieved through, among others:

- improved operational responsiveness
- effective presence in RMCs; and
- Strengthened country focus.

1.2 Since the last meeting of the Deputies in Tunis, significant developments have occurred in the following priority areas:

- the enhanced recruitment campaign to reduce the vacancy rate and increase the Bank's capacity to deliver its work program is close to completion;
- the Staff Survey launched on 15<sup>th</sup> June 2007 was closed on 26<sup>th</sup> July with a high response rate of 73%;
- Bank presence in RMCs is now close to approved level (23 out of 25 Offices opened). Customized staffing in the new Country Offices is nearly achieved whilst a Plan for the additional recruitment for the older offices is being finalized for full implementation during the first semester of 2008; and,
- Phase 1 of the Budget Reform is completed and preparation of the 2008 Budget Process has been launched based on the new Framework.

## **2. Reporting on Key Areas of Reforms**

2.1 As previously reported, the new organizational structure became effective in July 2006, placing the Bank in a better position to improve country focus as well as allow for more rigorous internal coordination of its support to the RMCs. The implementation of the Decentralization Strategy approved in 2004 is fully underway, while the management of available technical expertise has been rationalized. The Bank has also now firmly positioned itself to take a leadership role in infrastructure, water, NEPAD and regional integration initiatives. Meanwhile, private sector operations have registered steady growth, whilst the guiding operational strategy is being reviewed in close consultation with the Board. In addition to these achievements, the knowledge management function has been consolidated and the Bank is steadily gearing itself to play a more visible role in the generation, networking and dissemination of ideas and alternatives on Africa's development strategies.

2.2 The areas identified as key drivers for the required change, and which have to be implemented before end 2007, are: Human Resources (HR) Management (*Institutional Effectiveness and Service Delivery*); Operations Business Processes (*Improving Service Delivery and Quality*); Decentralization (*More Effective Country Presence*); and, the Budget Regulatory Framework and Management (*Budget Process Enhancement*). Responsible Units and Staff, as well as deliverables and deadlines, were identified and validated by Senior Management. The facilitation and monitoring functions have been intensified through the work of the Reform Implementation Team (RIT) which is in the Office of the President. RIT also works in close consultation with Senior Management in the various Bank Complexes and updates the Board on progress and challenges on a monthly basis.

## ***Institutional Effectiveness and Service Delivery***

### ***Key Human Resources Reforms Undertaken:***

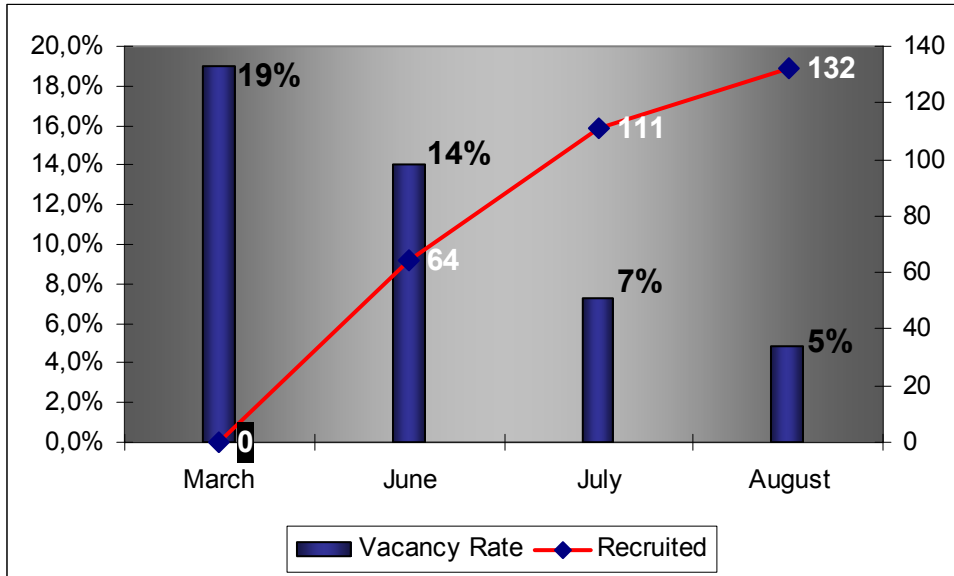
***Enhanced Recruitment of Non-Managerial Professional Staff***  
***New Performance Management System***  
***New Compensation and Benefits Framework for 2008 – 2012***  
***Improved Conditions of Service for Staff in Country Offices***  
***Revision of Staff Rules***  
***Staff Survey***

- 2.3 Central to the reform efforts in the management of human resources in the Bank is the new Human Resource Strategy approved by the Board in May 2007. The Strategy embraces mechanisms for rigorous HR management, including accurate need analysis and plans for attracting and retaining talent; managing staff for results and recognizing staff strength and weaknesses through a comprehensive and more objective performance evaluation system.
- a. Staff Recruitment**
- 2.4 The expected outcomes of the Bank's recruitment policy, in general, are threefold: (i) to recruit high caliber staff, with particular attention to diversity issues (gender, age, geographical distribution); (ii) to effectively manage staff skills mix and career development for optimum results; and, (iii) to systematically anticipate and manage staff exits, with succession planning in mind, in order to ensure minimum disruption to the Bank's business. To attain these objectives, the following processes are being implemented:
- 2.5 ***Enhanced Recruitment Campaign.*** The initial phase consisted of the enhanced recruitment of the Management Team, which was completed in March 2007. All Directors, Managers and Resident Representatives are now in post and received directions from the President during an induction workshop held on July 1<sup>st</sup> 2007. This exercise has brought about a renewal of fifty percent of the Bank's management positions.
- 2.6 Since the conclusion of the management recruitment, attention has focused on the recruitment of non-managerial professional staff. Vice Presidents, Directors and Managers, have been closely involved in the campaign to ensure a more effective, competitive and transparent recruitment process. The exercise has also benefited from the assistance of professional consultants.
- 2.7 In March 2007, the Bank had identified 172 vacant positions of non-managerial Professional Staff and committed to fill at least 132 of those positions by 30 September 2007 in order to reach a vacancy rate of less than 5%. By end-August, 132 employment offers, including for 40 Young Professionals, had been made and accepted. This has brought the vacancy rate to the desired level. The expected filling of another 12 staff positions by 30<sup>th</sup> September will further reduce the vacancy rate to less than 4%, which will be below the initial target. All newly recruited staff are expected to assume duty before end-year 2007. Meanwhile, it should, however, be noted that during the same period of March – August 2007, a total of 32 staff have left the Bank. Recruitment for replacements is actively underway.
- 2.8 Also included under the enhanced campaign is the recruitment of staff for Regional/Country Offices, which is an important feature of the Decentralization Strategy<sup>1</sup>.

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<sup>1</sup> See Section "*More Effective Country Presence*" below.

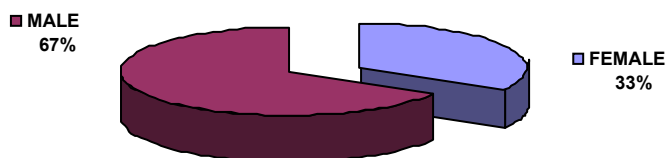
**Figure 1: Recruitment Campaign to reduce the vacancy rate**



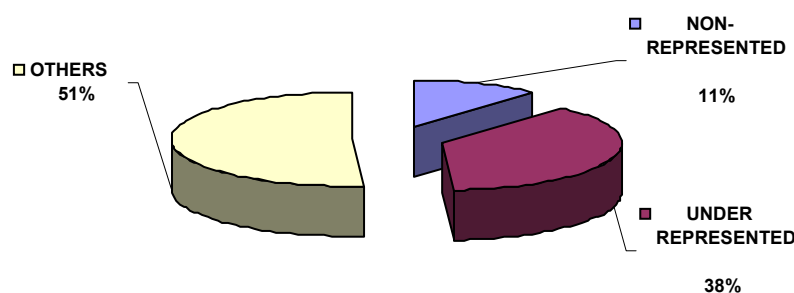
2.9 Ensuring greater diversity has been a consistent concern throughout the recruitment process and has been closely monitored. As a result:

- The proportion of female professional staff among the new hires is 33%. This has increased the female representation among non-managerial PL Staff in the Bank from 22% to 24%;
- the average age has been reduced from 46 to 40, mainly because of the enhanced Young Professional Program (average age of 27);
- with regard to broader members states representation, 6 formerly non-represented countries are now represented in the staffing of the Bank and 43% of newly recruited staff are from currently under-represented member states;
- There has been a significant addition of specialists in sectors identified as strategic priorities: 15 additional experts joined the Water Department; 7 staff have been assigned to the Governance Department; 10 Staff to Infrastructure; and, 4 to NEPAD and Regional Integration Department.

**Figure 2: Gender Representation**



**Figure 3: Broader Member States Representation**



2.10 **The Young Professional Program (YPP).** Over four thousand applications were received for the YPP. Following thorough technical evaluations, eighty-six candidates were tested at an Assessment Centre and interviewed by a panel of experts.

2.11 Forty candidates have now been offered employment and are expected to be on board by 1 October 2007. The initial number of 20 Young Professionals (YPs) was increased in consideration of the number and quality of the candidates, with a view to bring in a wide skill-mix as well as various new talents. The Bank is gearing to integrate the YPs within the institution in line with identified skills needs across the different complexes.

**b. The New Performance Management System**

2.12 The design of the new staff performance evaluation management system, which will link staff individual results to organizational goals and provide the basis for rewarding good performers, has been developed. It is currently being tested in readiness for implementation with effect from January 2008.

2.13 The system is also designed to bring about improved management of staff promotion and career development. With regard to poor performance, it will put in place more proactive mechanisms to help identify staff weaknesses and a systematic training and coaching process to ameliorate their situation. To capture individual performance from the different perspectives of peer staff, clients and management, a multi-rater assessment system (180°+) will be implemented.

**c. Streamlined Compensation Framework**

2.14 A new compensation framework will be presented to the Board for approval before end November 2007. This reform has been developed following a review of the Bank's compensation framework vis-à-vis comparator frameworks and changes in market trends undertaken by international consultants. Once approved, it will be implemented with effect from 1 January 2008.

2.15 The new framework is designed to ensure that the Bank maintains competitiveness and strengthen the link between what staff do and how they are rewarded in order to build a more effective workforce. The envisaged changes, which will include benefits restructuring, will make pay more sensitive to performance.

2.16 Country Office policies are being refined and integrated into headquarters compensation policies to enable the Offices to attract and retain the caliber of staff needed to make decentralization work. Following Board approval of Management's proposals in June 2007, all locally-recruited staff in the Country Offices have been incorporated into the Bank's Staff Retirement Plan, whilst a new compensation policy for international staff posted to Country Offices is also now in place. Furthermore, the Bank is in the process of assimilating locally-recruited staff into the Group medical and insurance schemes.

2.17 The new compensation framework will also require the introduction of a revised job classification system, which will streamline the Bank's grade structure and provide flexibility in

the internal deployment of staff. Based on the experience of successful organizations, a reduction of the number of grades will simplify HR processes and bring sharper focus on professional growth instead of promotions.

- 2.18 Finally, the new compensation framework will incorporate measures to increase efficiency and improve fiduciary control in administrative processes, will be introduced. This includes the centralization (HQ and Country Offices) of salary administration of the Bank under a common IT platform at Headquarters.

**d. Revision of Staff Rules**

- 2.19 In view of the wide range of HR reforms underway, there is a need to update the Bank's Staff Regulations and Rules to ensure: (i) consistency with new HR policies, and, (ii) they reflect best practice among similar institutions, while taking full account of the specificities of the Bank. The review started in August 2007 and will be conducted over a period of three (3) months.

**e. Staff Survey**

- 2.20 A first ever comprehensive staff survey was launched in June 2007 and registered a 73% response rate. The survey provided all staff members the opportunity to express their views about various aspects of their work and the Bank. It was also an opportunity to take stock of staff views on where the Bank is, and to encourage positive change. Key expected outcomes are to help improve the way Staff work, how they are managed and allowed to develop.
- 2.21 The survey results have been submitted to Senior Management and its key findings will be made known to all Staff by mid-September. The Deputies will also be briefed during the ADF consultation meeting in Bamako. Management is firmly committed to ensure that the exercise will continue to be treated with the highest degree of professionalism, urgency and diligence.

**Improving Service Delivery and Quality**

**Key Operations Business Process (BP) Reforms Undertaken:**

**Operational Programming**  
**Simplification of procedures and approval of operations**  
**Delegation of Authority**  
**Operations and Country Office Manuals**  
**Procurement**

- 2.22 Though the initial proposed timelines for the preparation, adoption and implementation of some of the new business processes for Bank operations have not been fully met, lost ground is being recovered and the overall deadline of end 2007 will be achieved. All the BP reforms will be fully effective early in 2008. It has been recognized that there is a need to give more time to the early review and formulation stages in order to ensure extensive and effective consultations - both internally and externally. This is a necessary development in order to avoid major shortcomings or disruptions during the implementation of the new processes. It is also important to ensure consistency across all new policies and procedures.
- 2.23 The new organizational structure created three Operations Complexes and the Chief Economist's Office, all of which have to work in close coordination to assure coherent, timely and effective Bank support to the RMCs. An Operations Committee, composed of the three Vice-Presidents in charge of operations and the Chief Economist, was set up to oversee the critical operational issues – policies, programming, resource utilization – to enforce high quality standards; ensure strategic alignment and cohesion; and increase accountability and corporate-level ownership. In addition, leadership in the design of country strategies and lending programs is now fully vested in Regional Departments, with the Regional Directors taking charge of the Country Teams. Sector complexes, for their part, are responsible for sector analysis, project appraisal and implementation. Other core operational processes reforms underway are:

- The number of projects and programs, which are formally discussed at the Boards prior to approval, will be significantly reduced to allow the Boards of Directors to focus more on strategy and policy issues. Under this framework, each proposal, depending on its complexity and size, will either be submitted to the Board for formal discussion and approval, or on a lapse-of-time basis.
- Business Processes for core operational outputs – country strategies, operational policies, and specific transactions – are being strengthened and streamlined. Full ownership and accountability at each step of the development and review process has been clarified; the number of formal meetings is expected to be reduced by half; compliance review is strengthened, but without introduction of new rules and regulations; and, cross-operational Management accountability for all significant operational work has been built in.
- Major changes are being introduced in the formats of key operational documents (such as Country Strategy Papers, Project Appraisal Reports, and Project Supervision Reports) which will enhance the quality and focus on core issues.
- The Bank's current Delegation of Authority Matrix has been comprehensively reviewed and revised, resulting in decision making authority being substantially further devolved and de-layered, including to the Bank's Country Offices. This will allow Task Managers posted in Country Offices to handle a wider range of project management and supervision activities, in accordance with the approval thresholds contained in the new Delegation of Authority Matrix.
- The Bank's Procurement and Financial Management Unit is being restructured and considerably strengthened to better perform its dual functions as both a compliance unit and a service provider. The Procurement and Financial Management Reforms, including the Revised Rules of Procedure for Procurement, should be completed by end of December 2007 and rolled-out from January 2008. These reforms will make a significant contribution to the Bank's efforts to implement the Paris Declaration harmonization agenda.

### ***More Effective Country Presence***

<p><b><i>Key Decentralization Actions Undertaken:</i></b></p> <p><b><i>Opening of the 11 remaining offices</i></b></p> <p><b><i>Customized staffing</i></b></p> <p><b><i>User friendly IT &amp; communication tools and manuals</i></b></p>
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- 2.24 The Bank is now present in 23 RMCs, and each of these Offices has a Resident Representative in post. Only two Host Country Agreements (Algeria and Angola) are still outstanding, though they are expected to be finalized soon. The opening of country/regional offices continues to have a positive impact in the RMC. The immediate result is the increased visibility of the Bank in the countries. The Country offices have allowed the Bank to improve interaction and ensure a sustained dialogue with national authorities and other stakeholders, including Development Partners operating in RMCs. Based on the experience of the first set of the Country Offices, the proximity to the client has had positive effect on disbursement and on reducing the time for processing new projects.

***a. Country/Regional Offices staffing***

- 2.25 To strengthen the strategic role of the Country Offices in improved coordination with member countries and enhanced portfolio management, the staffing profiles in the Offices was revisited during the first quarter of the year to make it more tailored and hence responsive to the identified challenges. This was determined by the specific portfolio demands and development priorities for each country, as well as the Bank's strategic orientations.
- 2.26 The recruitment process to fill the resulting vacancies is fully underway. This includes 12 Country Program Officers (CPO). The Bank has also made offers to 26 locally recruited Professional Staff (Economists and Sector Specialists and core functions such as disbursement and procurement) in the new Country/Regional Offices. This will bring the total

number of local professional staff in Country/Regional Offices to 68. It is planned to complete the exercise by mid-2008.

**b. Upgrade of IT Facilities Improving Communication with Country Offices**

- 2.27 Upgrading of the Bandwidth available in all the Country/Regional Offices has been completed, thereby enabling faster and more reliable access to IT resources in HQ. It is expected that this enhancement will improve: (i) use of all IT systems (email, telephone, the Bank's enterprise resource planning system (SAP) and Document and Records Management System - DARMS , intranet, etc.); (ii) quality of videoconference; (iii) scanning / electronic filing and transmission of documents (disbursement applications, procurement documents, etc.). Required Staff training will, as planned, be completed by the end of 2007.

**Budget Process Enhancement**

**Key Budget Process Reforms Undertaken:**

**Regulatory Framework  
Accountability and Performance Framework (KPIs)  
Programming and Budgeting Infrastructure**

- 2.28 The first phase of the Budget Process Enhancement Reform was approved by the Board of Directors on 15th of June 2007. The principles underlying the enhanced Budget process are greater devolution, fungibility and flexibility in budget management. The objectives of this reform are to strengthen accountability and utilize administrative resources more efficiently. As a first step, amendments to the Bank's Financial Regulations were approved. The amendments allow for applying these principles to the following elements of the budget process: (i) Work Program, (ii) the Capital Expenditure Budget, (iii) the Administrative Expenditure Budget, (iv) the Progress Reports on the Budget Implementation; and, (v) Budget transfers.
- 2.29 Decentralization of the Bank Budget execution tools is now in place. Each Cost Center, including the Executive Directors' offices, is now fully responsible for the execution of the consultancy and mission budget.
- a. Performance and Accountability Framework**
- 2.30 The increased budget management responsibility of organizational units, consolidated at Vice-Presidency level, has been accompanied with the introduction of tighter and more transparent monitoring instruments. Expenditure patterns and performance will be measured against established benchmarks and targets on specific indicators. These indicators will include the Key Performance Indicators (KPIs) which were presented to the Deputies in March and June, and further discussed with the Boards in July 2007.
- 2.31 The KPIs<sup>2</sup> include lending and non lending deliverables, portfolio management and process efficiency indicators such as disbursement ratios, key HR ratios. For service departments specific indicators would also include capital management and cost and IT efficiency ratios. Expenditure safeguards are addressed by budget ceilings (total budget ceiling, fixed cost ratio, operation to non-operation ratio, budget execution/work program delivery index).
- 2.32 Implementation of risk mitigation measures and additional control is addressed through system customization. The budget planning software has been upgraded to allow for the development of the work programs and budget of the organizational units and in setting KPI target levels.
- b. Country Budgeting**
- 2.33 The objective of the country budgeting is to strengthen the country (client) focus and ensure that resource allocations to Departments in the three Operations Complexes and the Country Offices are driven by country work programs. The new process, developed with the help of

<sup>2</sup> See indications on current and target levels in the draft Deputies Report.

management consultants and discussed with the Operations Complexes during the month of August, reflects best practices of other comparable institutions. The country strategy and the associated deliverables as defined in the CSP will be the key drivers for the allocations of the resources to the Departments.

- 2.34 Successful implementation of this new framework in the preparation and execution of the 2008 Budget will depend largely on improved cooperation between Sector and Regional Departments. To this end, a budget management capacity is being strengthened across the institution through training the relevant budget holders, including senior managers.

**c. Dollar Budgeting and Long-Term Efficiency**

- 2.35 The Budget enhancement process will continue with the launch of Phase 2 in 2008. This will involve the introduction of effective “dollar budgeting” with full fungibility among expenditure categories. Furthermore, Phase 2 will include the preparation and adoption of a Long-term Efficiency Plan aimed at boosting efficiency of the internal services. This Plan will be accompanied and supported by improved cost measurements (benchmarking, time recording system, structured reviews and business process audit). The elaboration of a multi-year resources framework (2009-2011) to serve the institutional strategy will also be considered.

### **3. Challenges**

- 3.1 The on-going institutional Reforms are geared toward: (i) consolidating past gains and repositioning the Bank for greater efficiency and effectiveness; (ii) making the Bank be more responsive to the changing development challenges of the RMCs; and (iii) enabling the Bank to provide leadership in areas of comparative advantage, as well as areas mandated to it.
- 3.2 To attain these goals, Management recognizes that the critical challenge is to ensure there is consistent, rigorous and effective implementation of the reforms; that there is a need for continuous monitoring and improvement in a dynamic framework. Through RIT, and the Office of the President in general, progress on the implementation of the reforms, in particular the core 2007 reforms, is being closely supervised. This has enabled timely identification of bottlenecks and the implementation of appropriate corrective actions. For the medium and long term, RIT is also charged with identifying a suitable mechanism to mainstream the monitoring functions to ensure that this is embedded in the culture of the Bank. RIT recommendations will be reviewed by Senior Management. It will also be discussed with the Board before deciding on specific implementation actions.
- 3.3 Management is also determined to bring about fundamental institutional culture change. This entails focusing on implementation rather than processes; and ensuring priority of service to clients. Above all, Management intends to build an institution that **listens and communicates** – both internally and externally. Internal dialogue and communication is critical to reinforce understanding and ownership of the various reforms, and the mission of the Bank in general, by all stakeholders in the Bank. To this end, Management sees the Staff Survey as an important opportunity to demonstrate commitment in attaining these important twin objectives. Consequently, Management is committed to implement priority follow up actions in a transparent manner.

### **4. Conclusion**

- 4.1 Implementation of the core 2007 reforms has registered significant progress, in particular in Human Resources, RMC presence and the approval of the framework for a new budget management process. Background consultations and work for the Business Processes Reforms have been intense and many elements of the new processes are in fact already being implemented. The elimination of redundant bureaucratic processes is underway and should make the Bank more agile in responding to requests from the RMCs.
- 4.2 The renewal of the Management Team, as well as the expected arrival of a broad range of new skills, is addressing the capacity problems which had become a serious constraint in the

recent past. On the other hand, improvements in staff evaluation and compensation will help build competitiveness and retain staff.

- 4.3 To sustain these achievements, Management will continue to closely evaluate and monitor the reforms and outcomes. Further fine tuning and incremental changes will be introduced, where appropriate. All these efforts are contributing to making the Bank a stronger and more effective partner in the development of the African continent.