

**The 2010-2012 Programme and Budget:
Framework Paper**

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Acronyms and Abbreviations

ADB	African Development Bank
ADI	African Development Institute
ADF	African Development Fund
ADOA	Additionality and Development Outcome Assessment
APQR	Action Plan for Quality and Results
ASLC	Adjusted Short-Lived Crisis Scenario
ATR	Temporary Relocation Agency
AU	African Union
AUC/ECA	African Union Commission/ Economic Commission for Africa
BCP	Business Continuity plan
BITS	Broadband Integrated Telecommunication Services
BWIs	Bretton Woods Institutions
BUs	Business Units
CFAA	Country Financial Accountability Assessment
CGSP	General Services and Procurement Department
CIMM	Information management and Methods Department
CHRM	Human Resources Management Department
CIPSC	Capital Investment Programme Steering Committee
COBS	Budget and Strategy Department
COO	Chief Operating Officer
CPAR	Country Procurement Assessment Reports
CRMU	Compliance Review and Mediation Unit
CSP	Country Strategy Paper
CSVP	Corporate Services Vice-Presidency
CWP	Country Work Programme
DOC	Drawn-Out Crisis Scenario
EITI	Extractive Industries Transparency Initiative
ELF	Emergency Liquidity Facility
ERCU	External Relations and Communication Unit
ESAP	Environmental and Social Assessment Procedures
ESW	Economic and Sector Work
FAPA	Fund for African Private Sector Assistance
FCR	Fixed Cost Ratio
FFMA	Financial Management Department
FNVP	Finance Management Vice-Presidency
FOs	Field Offices
GCI	General Capital Increase
GECL	General Counsel and Legal Services Department
GEF	Global Environmental Fund
GPOA	Gender Plan of Action
GS	General Service Staff
HIPC	Highly Indebted Poor Countries
HQ	Headquarters
HTM	Held to Maturity
ICA	Infrastructure Consortium for Africa
ICB	International Competitive Bidding

ICF	Investment Climate Facility
ICT	Information, Communication and Technology
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IRM	Independent Review Mechanism
JAS	Joint Assistance Strategies
INOP	Indicative Non-Operational Programme
IOP	Indicative Operational Programme
IPPF	Infrastructure Preparation Project Facility
ISSC	Information Systems Steering Committee
IT	Information Technology
IWP	Indicative Work Programme
JAI	Joint Africa Institute
JEPA	Joint Economic Performance Assessment
KPIs	Key Performance Indicators
LICs	Low Income Countries
MASSP	Mutually Agreed Staff Separation Programme
MDGs	Millennium Development Goals
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
MEFMI	Macro Economic and Financial Management Institute
MFW4A	Making Finance Work For Africa
MICs	Middle Income Countries
MTS	Medium Term Strategy
NEPAD	New Partnership for African Development
NSDS	National Statistical Development Strategies
NTF	Nigeria Trust Fund
OAGL	Office of the Auditor General
OPEV	Operations Evaluation Department
OpsCom	Operations Committee
OPSM	Private Sector Department
ORPC	Operational Resources and Policies Department
PBA	Performance Based Assessment
PBD	Programme and Budget Document
PBO	Policy Based Operations
PCRs	Project Completion Reports
PER	Public Expenditure Review
PL	Professional Level Staff
PPPs	Public-Private Partnership
PMG	Performance Monitoring Group
RAG	Rolling Agenda of the Board
RMCs	Regional Member Countries
ROs	Regional Operations
RWSSI	Rural Water Supply and Sanitation Initiative
SEGL	General Secretariat
SLA	Service Level Agreement
SMCC	Senior Management Committee
SMEs	Small and Medium Enterprises
TA	Technical Assistance

TFI	Trade Finance Initiative
TRS	Time Recording System
UA	Unit of Account
USD	United States Dollar
VPU	Vice-Presidency Unit
WBS	Work Breakdown Structure
WP	Work Programme
WPA	Work Programme Agreement
YPP	Young Professional Programme
YPs	Young Professionals

EXECUTIVE SUMMARY

The 2010-2012 Programme and Budget Framework Paper is premised on the understanding that the Bank Group 2008-2012 Medium Term Strategy (MTS) will continue to guide the Bank's interventions in the Regional Member Countries. Consequently, the key guiding principles for the Bank's Work Programme remain: (i) selectivity and high quality operations; (ii) focus on country level outputs and outcomes; and (iii) continuous improvement of knowledge generation and management. The Programme and Budget implementation environment builds on key institutional activities aimed at enhancing the Bank's development effectiveness, notably by consolidating the Decentralization Programme; improving the quality assurance and results reporting systems; strengthening partnerships; empowering and motivating staff; strengthening the risk management and financial framework; revamping the Bank's internal and external communication; reinforcing IT platform and data management capacity; and, enhancing the RMC's capacity.

Operationally, the Bank will strengthen its focus on the MTS core areas of infrastructure, governance, private sector development, and higher education, science, technology and technical and vocational training. In so doing, the Bank will continue to promote regional integration, enhance its support to fragile states, deepen its engagement in the MICs, and foster high impact, selective support to agricultural development while mainstreaming the cross-cutting issues of gender, environment, climate change, and knowledge in all its operational work. The Bank will also continue to play a counter-cyclical role in response to the current economic and financial crisis, particularly through fast-tracking resource transfers to RMCs.

The overall 2010-2012 financing target for the ADB and ADF windows is projected at about UA 16.45 billion: UA 5.06 billion for 2010, UA 5.34 billion in 2011; and UA 6.04 billion in 2012. Compared with the target of the 2009-2011 PBD, this represents an increase of about 25%, mainly on account of a significantly higher demand from RMCs, particularly from the MICs. As a result of this sharp increase of its proposed lending programme, the Bank has advanced the process leading up to the Sixth General Capital Increase (GCI) in order to maintain its financial soundness and strong ratings.

The Indicative Non Operational Programme will be tailored to support the operational agenda of the Bank. At the same time, Non Operational Complexes will continue to discharge their core corporate mandates such as: (i) corporate governance and improved coordination; (ii) holistic approach to risk management, fiduciary responsibilities and control environment; (iii) recruiting; training and retaining motivated and healthy staff; (iv) scaling up internal and external communication; (v) streamlining processes for better results, including the consolidation of budget reforms; (vi) revamped IT systems; (vii) support to the decentralization programme and; (viii) building responsive corporate services.

Preliminary analysis of initial submissions for the 2010 Work Programme confirm that the Bank is committed to undertake more activities and deliver at a higher level than 2009. Major cost drivers are expected to be MTS delivery related areas such as consolidation of the decentralization programme; staff compensation and benefits; operational areas of strategic priority; enhancement of IT platform and data management; further strengthening of the risk management function; and a more focused and dynamic communication effort.

In terms of required resources, the MTS conservatively anticipated a yearly real budget growth of 5% (i.e. 25 % for the period 2008-2012) of which 14.31% has already been approved for the implementation of the 2008 and 2009 Work Programmes. This leaves a balance of 10.69% for the remaining three years of the MTS.

Management considers 2010 as a year of consolidation of the Bank's delivery capacity, further optimization of the use of available resources, and leveraging on demonstrated efficiency gains and trade offs. Consequently, resource requirements estimates for 2010 are being made on the basis of a zero real growth scenario, which yields a 6.5% nominal growth to cater for price adjustment and a full year budget for all additional positions approved in the 2009 Budget. The projected administrative budget for 2010 will, therefore, amount to UA 269 million instead of UA 281 million anticipated in the 2009-2011 PBD.

Nevertheless, Management might, in the light of performance in the first half of 2010, and possible acceleration of the momentum generated by the global crisis and the gained franchise value, propose adjustments to the Programme and Budget Document. Areas which will receive particular attention are: risk management, ADOA, communications, decentralisation and IT capacity improvements. This notwithstanding, Management is committed to remain within the overall growth scenario outlined in the MTS i.e. restrict total budget growth in 2010 – 12 to the remaining 10.69% margin.

Under the Capital budget, there will be three corporate areas of focus: (i) consolidation of the Bank's IT system following the outcome of the Architecture Study and the Infrastructure Audit; (ii) investments aimed at supporting the Decentralization Programme; and, (iii) rehabilitation of the Headquarters Building in Abidjan.

INTRODUCTION

This document presents the framework which will guide Management's proposals for the 2010-2012 Indicative Operational Programme (IOP) and Indicative Non-Operational Programme (INOP) and associated budgets.

The final evaluation of the 2008 Work Programme indicates both successes and challenges. There was a greater level of alignment between the Work Programme, budgetary resources and the Bank's strategic priorities. There were demonstrable efficiency gains and improvements in portfolio quality and operational flexibility. However, challenges remained with respect to the delivery of the lending programme, characterized by an acute bunching of Board deliverables in the last quarter of 2008; resource utilization was 7% below the 2008 target, largely owing to high vacancy rates.

At present, the 2009 Work Programme is on schedule and is well aligned to the Bank Strategy. Lessons learnt from 2008 regarding delivery have led to a reduction in the projected level of bunching with respect to the lending programme. In fact, total lending at end-June 2009 stood at 39%, which is more than double the 15% delivery rate at end June 2008. Additional investment in recruitment at the end of 2008 is helping to decrease the vacancy rate to a projected level of 8% by the end of the third quarter. There is an on-going effort for greater efficiency in delivering a wider span of operations within the approved resource envelope (details of the efficiencies gained will be presented in the 2009 Retrospective Review Report). Disbursement targets, as well as targets set for indicators for monitoring the quality of portfolio management, are likely to be met.

Performance Monitoring, Quality and Results efforts are beginning to have a positive impact on the Bank's processes: (i) new guidelines for PCRs have been issued, (ii) IT development of a Results Portal is underway, (iii) timing of reporting is improving, (iv) and identification of KPIs, targets and baselines for Units reporting to the President and to the Board is at an advanced stage. Similarly, the Decentralization process is moving in the expected direction, as evidenced by the KPI on projects managed by Field Offices which has already surpassed the 2009 target whilst performance on one other Indicator (Field Based Expenses) is strong.

The Bank-wide Programme and Budget preparation process is fully underway. Alignment of the 2010-2012 WP with the Institutional priorities has been strengthened and re-focused on agreed Country Work Programmes, and better coordinated among Head and Field Offices. Non-Operational Complexes' deliverables and Work Service Agreements have been clearly defined and aligned with the Operational agenda.

This document comprises 10 chapters; the first chapter provides an overview of the implementation of the current PBD (2009-2011), and chapter 2 presents the strategic context of the 2010-2012 IOP. Chapter 3 sets the framework for the IOP, and chapter 4 addresses the INOP framework. Chapter 5 looks at the implementation and monitoring capacity, while chapters 6 to 8 deal with the resource implications. Chapter 9 discusses the rehabilitation of the Headquarters and chapter 10 concludes and discusses next steps.

PART A – OVERVIEW OF THE PROGRAMMING AND BUDGET FRAMEWORK

1 PERSPECTIVES ON THE IMPLEMENTATION OF THE 2009 – 2011 PBD

1.1 Initial Lending Scenario under the 2009-2011 PBD

The 2009–2011 PBD was the Bank Group’s first programming and budget proposal under the Medium Term Strategy (MTS, 2008-2012). The MTS defines the Bank’s vision, provides guidance and sets direction. The PBD was approved in December 2008, at a time when most African countries were still spared from the first round effects of the financial crisis. It was prepared against the backdrop of a generally positive outlook for the global economy and the international financial markets, which influenced its operational and financial targets. Its overall financing objective represented an average annual increase of 17 per cent between 2008 and 2011, while its projected lending target for 2011 indicated a 53 per cent increase over the 2008 objective.

The implementation of the 2009–2011 PBD coincided with the deepening of the economic and financial crisis, which hit the African countries through various channels, including dwindling export demand, lower commodity prices, decrease in remittances and the drying up of external financing. As a result of the changed financial and economic landscape, a review of the Bank’s strategy and adjustments to the delivery of the 2009 Work Programme were inevitable.

1.2 Changes induced by the financial and economic crisis

Recent Bank Group forecasts show that Africa’s growth rate will slow down to around 2.9 per cent in 2009, from an average of more than 5 per cent during the past decade. The negative impacts of a protracted global downturn on trade and growth will have repercussions on the overall welfare of African populations and consequently undermine progress toward development objectives, including the Millennium Development Goals (MDGs).

Fast-Tracking Transfer of Resources to RMCs

The Bank Group has responded promptly to the crisis by supporting its RMCs in mitigating the adverse impacts of the crisis, substantively relying on programmatic or policy based operations to provide quick-disbursing resources. More specifically, the Bank has made available a considerable amount of resources through frontloading of concessional resources (notably the PBA envelope, Regional Operations and the Fragile States Facility), disbursements and portfolio restructuring. Additional instruments were introduced, including: the USD 1.5 billion Emergency Liquidity Fund (ELF); and the USD 1 billion Trade Finance Initiative (TFI) within the framework of the Global Trade Liquidity Programme (GTLP).

However, beyond the crisis, the demand for Bank’s resources is projected to grow further in the short to medium term. The demonstrable and robust demand calls for a response commensurate with the role entrusted to the Bank by its shareholders. Additional steps are therefore required to significantly increase the lending capacity of the Bank Group, above the projected levels of the MTS.

Reinforcing Bank's Capital Base

Most of the new instruments put in place in response to the financial and economic crisis are fast disbursing and thus have the potential to consume risk capital faster than earlier anticipated. The Bank has, therefore, advanced the process leading to the Sixth General Capital Increase. The first meeting will take place in Tunis in mid September, two years ahead of the originally planned schedule.

In addition to the above, the Bank is scheduled to present to the Deputies its Mid-Term Review of the ADF-11 in October, 2009, and hopes to embark, thereafter, on negotiations for an accelerated replenishment of ADF 12. The intention is to obtain, with maximum possible expediency, additional concessional resources.

2 CONTEXT OF THE 2010-2012 INDICATIVE WORK PROGRAMME

2.1 Update on the MTS Implementation

One of the main challenges of the Bank today is how to position itself effectively and stay focused on serving the needs of its RMCs in an increasingly volatile and competitive environment. In response, the MTS makes it clear that the Bank will focus on a number of interlocking and mutually reinforcing areas: infrastructure, governance, developing a more robust private sector, and developing technical and higher level skills.

During this implementation period, the role of the Bank Group has increased due to the effects of the global crisis and this has been worsened by the limited resources and policy space available to RMCs. The validity of the MTS is therefore being defined by the level of demand which is certainly increasing, the subsequent availability of resources, the levels and speed of disbursements and the change in risk levels.

During the 2009 Annual Meetings, the Board of Governors confirmed the Bank's strategic thrusts under the MTS, namely being recognized globally, and by its shareholders in particular, as a partner of choice in African development, and providing high impact, well focused development assistance and solutions. They also endorsed the Bank's counter-cyclical role to mitigate the impact of the crisis. The MTS remains valid and the Bank is demonstrating progressive achievement towards its vision in three key areas. (i) growth - the implementation period has seen huge increases in lending and disbursements, as well as significant capacity improvements; (ii) responsiveness - quick action to prevent the financial crisis from becoming a development crisis by acting in a countercyclical way; and, (iii) relevance - aligning the Bank's priorities with those of the RMCs and thereby help lay the foundations for recovery on the continent once the global recovery sets in.

The MTS remains a robust framework and strategic guide for the Bank. However, the current demand from RMCs, particularly MICs, will require that the assumptions made in terms of levels of lending under the MTS be revisited and significantly scaled up.

2.2 Guiding Principles for the 2010-2012 Operational Programme

In line with the MTS, the Bank will continuously seek to enhance its institutional and operational effectiveness. To this end, it will be guided by the following key principles:

Selectivity - by focusing on areas of added value, leaving other Partners to work where they have comparative advantage.

High Quality Operations - continuous improvement of processes for ensuring better quality at entry, at supervision and at exit for its operations. This will include results-based programming tools, extending its readiness review, improving its supervision and completion reporting for enhanced learning and accountability and reinforcing the Additionality and Development Outcome Assessment (ADOA) assessment for private sector operations.

Focus on Country Level Outputs and Outcomes - strengthened focus on results. To this end, the Bank will continue to monitor key country outcomes, using adequately designed results frameworks. It will also focus on enhancing the incentives and systems that drive implementation of policies.

Bank as a Knowledge Institution - The Bank will continue its efforts aimed at enhancing: (i) the generation and management of knowledge across its organizational units; (ii) its statistical capacity and its existing knowledge platforms; (iii) internal and external communication for a wide dissemination of knowledge.

Capacity Building in RMCs – The Bank will pay special attention to:

Strengthening Statistical Capacity: Attention will be placed on designing and implementing National Statistical Development Strategies (NSDS) which include strengthening the generation of statistics in key sectors and areas; reinforcing in-country statistical training and statistical training centers; improving data management and dissemination systems; and mainstreaming data generation and results measurements into Bank’s operations.

Strengthening Financial Management Capacity in LICs and Fragile States: The Bank will continue to rely on dialogue and training initiatives to enhance member countries’ capacity to plan and manage public resources, implement and supervise Bank’s operations, as well as design and manage macroeconomic environment conducive for attracting investment and stimulating growth.

2.3 Enhancing Institutional Effectiveness

To support the above-highlighted Operational principles, the Bank has been implementing a number of institutional programmes aimed at increasing its delivery capacity.

2.3.1 Consolidation of the Decentralization Programme

The Decentralization Programme, as initially conceptualized, is nearing completion with the establishment of some 26 Field Offices out of which 23 are already operational. Preparations for opening the remaining three (Angola, Algeria and the recently approved office in South Africa) are advanced. Building on the recommendations of the July 2009 Report of the Independent Evaluation Department (OPEV), Management has committed to defining a road map that sets out the concrete elements of a clear administrative structure, a re-defined vision and specific targets and outcomes. It has also committed to clarifying adjustments to staffing skills and paying greater attention to human resources issues.

2.3.2 Strengthening Partnerships

The Bank will focus on increasing its resource mobilization capacity by liaising with members of the donor community and progressively securing their agreement to untie those bilateral Funds which still have restrictions.

It will also champion the shift from bilateral funds to multi-donor Trust Funds. This will be achieved by both introducing new Thematic Funds – such as the Micro-finance Fund, the Migration and Development Fund, the Governance Fund (2nd phase), the Science and Technology Fund, and the South/South Cooperation Fund – and promoting the funding of existing Thematic Funds, including Fund for African Private Sector Assistance (FAPA), Water Funds, NEPAD IPPF, Congo Basin Forest Fund and the African Fertilizer Financing Mechanism. The new SAP-based Trust Funds Management System, recently rolled-out across the Bank (including Field Offices) and whose completion is expected by end of 2009, will help to streamline the process and enable stricter monitoring of implementation progress, oversight and fiduciary control.

2.3.3 Staff Empowerment and Motivation

The Skills and Staff Surveys undertaken in 2008 enabled management to have a clearer view of available resources and Staff expectations. Within the more general context of enhancing Corporate Services Delivery, ongoing HR Department Reforms will move the centralized HR administration model to a more client and partnership-focused model, thus enabling the Department to provide a wider range of services such as strategic planning and career development.

The restructuring of the HR function, while still in progress, has already improved the Bank's capacity to deliver the large staff increase approved by the Board. Key staffing needs, including those in the areas of Private Sector, Legal, Safeguards, Risk Management and Results, have been fulfilled, significantly bolstering the Bank's quality and effectiveness capacity.

2.3.4 Risk Management and Financial Framework

The financial crisis and the heightened global security have increased the need for the Bank to strengthen its overall risk and control environment. It is worth noting that due to prudent policies and rigorous guidelines, the Bank has been largely unscathed. To consolidate its achievements, the Bank is pursuing a holistic approach to safeguard its assets – human, financial, property, and information. This approach is focused mainly on three pillars: *Financial Risk Management* - Management has updated guidelines, process, procedures, and user manuals governing the risk management operations. In some cases, it has automated processes and procedures to increase efficiency and has completed implementing systems and tools for tracking Exposure Limit, rating internal risk workflow, and project management, (ii) *Security* - Management will continue to bolster its efforts in providing security to the Bank's assets in terms of field security assessment, training programmes and Information Security Protection Programme; and, (iii) *Business Continuity* - The Business Continuity Plan launched in 2009 will, in 2010, focus on functional tests covering Northern (Morocco, Algeria, Egypt and Sudan) and Southern Africa countries (Angola, Mozambique, Madagascar, and South Africa).

2.3.5 Improved Communication

The Bank's External Relations and Communication will support the institutional strategic objective to earn recognition as the partner of choice in African development. The Bank will increase its volume of communication activities in order to support the institution's priorities in terms of decentralization, MTS, ADF replenishment and general capital increase. In this process, it is important for the Bank to show the organization's results achieved through the implementation of development projects in its Regional Member Countries.

2.3.6 Productivity, Savings and Efficiency Gains

Cost savings and efficient use of resources are important pillars of the Bank's budgeting framework, and Management will strengthen its oversight in this area. Work Programmes will be reviewed to identify areas of potential scale down or streamline.

In addition, Management will build upon the gains realized by the measures discussed in the 2009-2011 PBD. These measures relate to performance evaluations and sustainable HR strategy (including MASSP); increasing the value for money on IT and telecommunications investments; and management of general expenses.

Work Programmes: Complexes will indicate in their 2010-12 Work Programmes, redeployment and trade-offs they intend to undertake. Cost saving efforts will be identified and closely monitored.

Expenditure Line Items: Under UA budgeting, spending caps on line items will be removed but enforced on total envelopes. Management will, however, strengthen fiscal discipline on missions, consultants and Annual Meetings, clean-up of outstanding commitments, procurement, staff compensation, and office rent.

Streamlining Business Processes: External and internal benchmarking mechanisms will be employed to determine cost efficiency of services provided by Corporate Services; and initiate plans to continually review the functional arrangements within the Complexes for realignment to business needs. Actions would be put in place to ensure that; (i) services remain cost-efficient; (ii) no duplicated functions; (iii) services are relevant to core-business; (iv) service levels justifies their costs; and (v) economies of scale are achieved.

Mutually Agreed Staff Separation Programme (MASSP): This will be used for purposes of staff performance monitoring and workforce management and will offer appropriate incentives to reduce overall long-term spending. It will be continuously reviewed and applied to ensure effectiveness and efficiency by eliminating any identified staff surpluses.

Capital Budget: Building on the comprehensive clean up carried out in 2008, Management will, through the ISSC and CIPSC, tighten the management of Capital Projects to ensure that projects; (i) add value; (ii) life cycles are monitored for timely closure; and (iii) balances are clawed and redeployed elsewhere after closure. Capital portfolio performance is now monitored through KPIs and cost/benefit analysis will continue to guide investment priorities.

PART B - THE 2010-2012 INDICATIVE WORK PROGRAMME (IWP)

3 THE 2010-2012 INDICATIVE OPERATIONAL PROGRAMME (IOP)

3.1 Framework of the 2010-2012 IOP

During the period 2010-2012, the Bank will continue to focus on its priority areas, as laid out in the 2008-2012 MTS, while using its set of additional instruments as part of its response to the economic and financial crisis. Most importantly, the Bank will work at scaling up its resources to respond to demonstrably increased demand from its RMCs. It is against this background that the 2010-2012 IOP is being prepared.

3.1.1 Areas of focus

Core Priorities - The Bank will strengthen its focus on: (i) scaling up its support to Africa's own efforts for infrastructure development, including by continuing to exercise leadership in continental initiatives such as ICF, EITI, and MFW4A; (ii) private sector development with particular support to infrastructure, financial intermediation, industries and services; (iii) seeking to increase its support to Higher Education, Science and Technology and Technical and Vocational Training. Through investments in these areas, the Bank will enhance its support to MICs, Fragile States, regional integration and agriculture with particular emphasis on food security, and will promote adaptation to climate change and gender equality.

Response to the Financial and Economic Crisis - The Bank's commitment to playing a counter-cyclical role in response to the current economic slump has resulted in a sharp increase in Bank financing. The Bank has launched the Africa Bond Initiative and has brought forward several quick disbursing facilities such as the USD 1 billion Trade Finance Initiative (TFI) within the Global Trade Finance Initiative and a USD 1.5 billion Emergency Liquidity Facility (ELF). The TFI is initially meant to provide lines of credit that allow African commercial banks and Development Finance Institutions (DFIs) to use Bank resources to support trade finance operations. The ELF is an exceptional multi-purpose and flexible facility providing quick disbursing financial support to ADB eligible countries and non sovereign operations in all RMCs facing financing constraints due to the global financial crisis.

3.1.2 Lending Scenarios

In line with shareholder guidance, the Bank will continue to play a critical role in channelling resources to RMCs. With the contraction of activity in many African economies and collapse of credit markets, there has been a sharp increase in demand for Bank financing, especially from Middle Income Countries (MICs), and the continent's private sector. Concurrently, the Bank has become more deeply engaged with RMCs, through its on-going decentralization process and other institutional reforms as well as the Bank's role as a key voice for Africa on the international stage. The increased immediate needs from RMCs in the context of the crisis, combined with enhanced capacity of the Bank and closer relationships between the Bank and its clients, has led to an unprecedented demand on the Bank.

ADB Lending Scenario - To respond to the anticipated demand from RMCs, the Bank has developed two potential lending scenarios that are illustrated in the approved GCI-VI Issues Paper:

- **Scenario 1 – (The Adjusted Short-lived Crisis Scenario – ASLC)** – It’s the base case scenario and is built on the assumption that the Bank Group would provide a volume of financing substantially higher than the MTS projections during the period 2009-2010, including quick-disbursing resources. Afterward, the Bank would adopt the MTS lending levels from 2011 onward.
- **Scenario 2 – (The Drawn-out Crisis Scenario – DOC)** – This scenario is based on the assumption that the Bank should sustain lending levels higher than the MTS and the ASLC.

Projections for both scenarios are presented in Table 1 below, against the MTS lending scenario. ,

Table 1: Lending Scenarios for 2009-2012 ADB lending

SCENARIO	2009	2010	2011	2012
MTS	2,187	2,171	2,890	3,292
Scenario 1	6,984	3,565	2,890	3,292
Scenario 2	7,384	4,971	4,990	4,692

ADF Projections for 2011 -2012 – The Bank Group will mobilize additional resources through the ADF-12 Replenishment, along with the balance of ADF-11. The base case scenario for this concessionary window will be the one outlined in the MTS, to the effect that resources under ADF-12 would be 50% higher than under ADF-11. These ADF financing targets are subject to changes based on the outcome of the ADF-11 Mid-Term Review and the negotiations for ADF-12.

3.1.3 Financing Targets

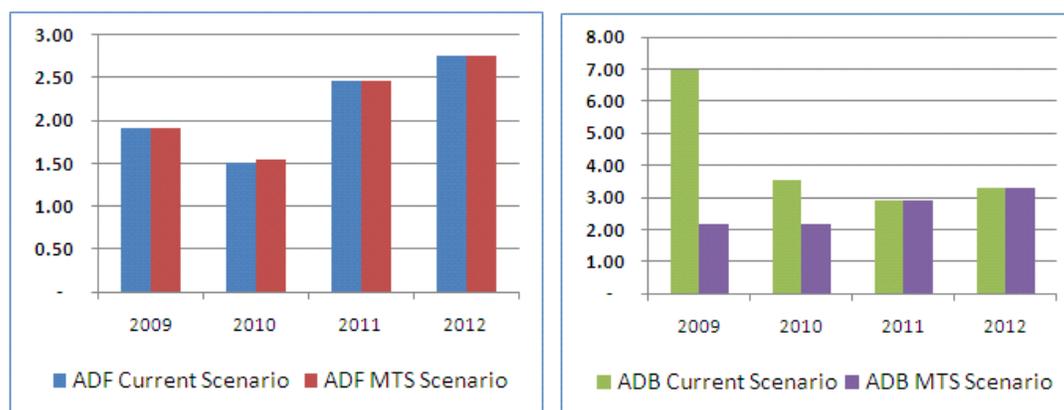
The 2010-2012 Bank Group financing target is underpinned by: (i) the 2010 balance of the ADF-11 replenishment commitments, which accounts for about UA 1.5 billion; (ii) the projection of a global commitment of UA 5200 million for ADF for 2011-2012, based on the MTS projections of the ADF-12 Replenishment; and (iii) the base case scenario (Scenario 1) for ADB lending presented in Table 1 above.

Table 2: 2009 – 2012 Financing Targets (UA billion)

	2009	2010	2011	2012	2010-2012
ADF	1.900	1.500	2.450	2.750	6.700
ADB	6.984	3.565	2.890	3.292	9.747
Bank Group	8.884	5.065	5.340	6.042	16.447

The aggregate 2010-2012 financing target is estimated at UA 16.447 billion, of which UA 5.065 billion in 2010, UA 5.340 billion in 2011, and UA 6.042 billion in 2012.

Figure 1: Proposed Financing Targets versus MTS Scenario (UA billion)



Compared to the MTS scenario used last year as reference for the 2009-2011 financing targets (see Figure 1 above), the significant increase of ADB financing, for the period 2009-2010, is a result of the Bank’s response to the high demand from MICs and the Private Sector in general. As for the ADF, the objectives remain aligned with the initial MTS scenario,

3.2 Proposed 2010-2012 Operational Programme

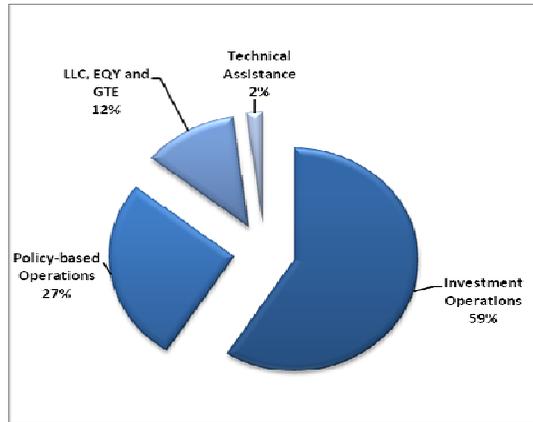
3.2.1 Financing Programme

Work Programme Versus Financing Target --The 2010 financing programme amounts to a total of UA 6,213 million comprised of UA 4,793 million of public operations (ADB, ADF and other miscellaneous technical assistance funds) and UA 1,420 million of private sector loans. Compared to a financing objective for the year of UA 5,065 million, this represents a “slippage” factor of about 23%¹, close to the 20% usually reflected in past IOPs.

Distribution by Financing Instrument - Investment operations made up primarily of specific and sector investment loans and grants will remain the major financing vehicle over the period. Figure 1 below presents a breakdown of the Work Programme per financing instrument for 2010, Investment operations will represent about 59%. Policy-based operations (PBOs), representing about 27% of resources, i.e. three times higher than the average over the previous period, to meet the increasing demand for fast-disbursing resources. Lines of credit, equity participation and loan guarantees, processed by the Private Sector Department, will account for about 12%. Technical assistance (TA) covering mainly institutional support operations and project preparation make up some 2% of the 2010 financing Work Programme.

¹ The slightly higher percentage recorded for the 2010 proposed financing programme is mainly due to the private sector programme, which has been based on an assumption of 30% of slippage, due the highly volatile nature of private sector operations

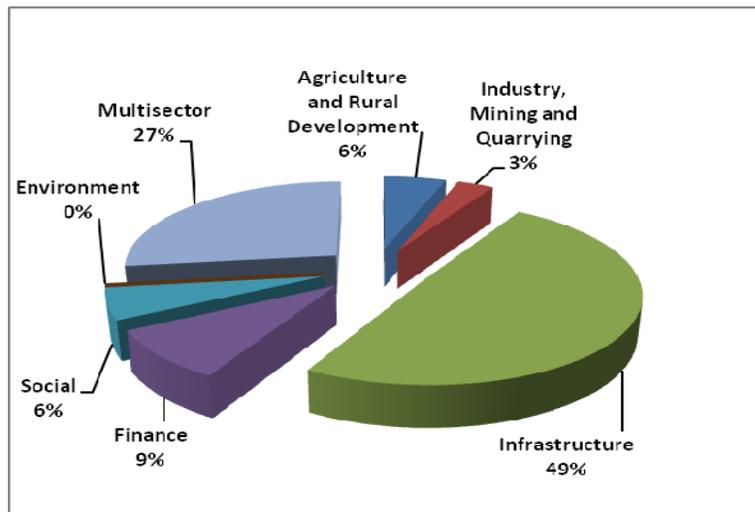
Figure 2: 2010 IOP Distribution by Financing Instruments



Note: LLC, EQY and GTE stand respectively for Lines of Credit, Equity Participation and Loan Guarantee.

Distribution by Sector - Figure 3 below presents a breakdown of the 2010 operational WP by sector, based on the sectoral definition currently used in the Bank. Infrastructure retains the top priority and represents, at 49%, about half of all financing. The multi-sector loans and grants comprised of policy based operations in support of reforms and good governance represent a significant share of 27%. Other sectors receiving significant volume of resources include Finance, Agriculture and Rural Development and Social including Higher education, with 9 %, 6% and 6% respectively. The private sector operations constitute some 23% of the total work programme, with about 80% of the resources mainly allocated to infrastructure and finance.

Figure 3: Distribution of the 2010 Operational Work Programme by Sector



Based on the foregoing, it can be concluded that most of the resources will go to the major areas of focus.

3.2.2 Non-Financing Activities

Non-financing activities will continue to complement the Bank's financing operations in the RMCs. These include ADF resources mobilization and programming activities, economic and sector work (ESW), portfolio management, and policy development. Within the framework of the non-financing work programme, Management will put particular emphasis on leveraging the resources available in the Bank to develop more rigorous analytical work.

Resources Mobilization Activities – The negotiations for the ADF-12 Replenishment will take place during 2010. As usual, it requires the Bank's involvement in the preparation of background and discussion papers as well as several missions. Also, the envisaged GCI-VI would require similar involvement from the Bank.

Programming & Pipeline Development Activities - The number of CSPs and related papers is expected to be at the same level as in 2009. They include the preparation of Joint Assistance Strategies (JAS), working closely with other MDBs and development partners. Following the approval of the Regional Integration Strategy, Management will also prepare a number of Regional Integration Strategy Papers (RISP) aimed at guiding Bank Group's future engagement in the Regional Economic Communities (RECs).

Economic and Sector Work - Recently, the Bank has been intensifying ESWs to strengthen the Bank's knowledge base. In view of the low level of delivery on ESWs projected by end-2009 (as highlighted in the Bank's 2009 Mid-Year Budget and Performance Report), the ESWs will be limited in numbers and concentrated in areas supporting the core business activities of the Bank Group. Management will put particular emphasis on deepening the demand analysis and developing new business models, as well as preparing flagship knowledge products and policy notes. Management will also accord a high priority to the dissemination of the above-noted products.

Portfolio Management - The Bank will continue to build on its Action Plan for Quality and Results (APQR) and the enhanced decentralization process to strengthen its portfolio management, by making it more results-oriented. Project supervision will continue to be strengthened, to ensure that the annual target of 1.5 supervision missions per project is met and that timely reporting is done, while gradually increasing the number of supervision missions undertaken and the completion reports prepared by Field Offices. In relation to this, it should be noted that the implementation of the initiative on project completion reporting, within the APQR helped to prepare during the year 2009 PCRs for more than 90% of the projects exiting in 2008. This initiative will continue during the period. Also, preparatory work is being done for a similar initiative on supervision reporting. The target of Country Portfolio Performance Review in 2010 is lower than 2009. The portfolio cleanup will continue with the cancellation of projects that meet the relevant criteria.

Policy Development - The preparation of new policies and strategies, as well as the revision of a few others, will be initiated in 2010. These will include: (i) the Policy on Streamlining Loan conditions; (ii) the Energy Policy and the Strategy on Renewable Energy; and (iii) the Environmental and Social Assessment Procedures and Related Safeguard policies. Other key policies and strategies whose preparation is underway are expected to be approved in 2010. These include Natural Resource Management Policy, Sanitation Strategy, and Agriculture & Agro-Industry Strategy. The dissemination of operational policies/strategies and frameworks approved

over the last two years - such as the Regional Integration Strategy approved in March 2009, the Climate Risk Management Strategy approved in April 2009, the Integrated Urban Development Strategy, which is planned to be approved by end-2009; and the AUC/ECA/AfDB Land Policy Framework and Guidelines for Africa, which was approved by the Heads of State in July 2009 and is scheduled for launching in September 2009 - will be intensified in 2010.

3.3 Decentralization

OPEV's assessment of the decentralization strategy identified some positive points: (i) field presence has proved to be a contributing factor to the significant increase in the volume of activity; (ii) it has also resulted in the improvement of important activities of portfolio management. (iii) there is evidence of the AfDB being more responsive to the local donor landscape, with increased AfDB visibility at country level, thus providing more opportunities to participate in joint assistance approaches.

One further area of efficiency would be in the field of procurement and fiduciary oversight where Management is taking steps to increase the number and levels of skills and responsibilities in the Field Offices, including the posting, for the first time, of financial experts. These measures are expected to significantly reduce delays (by as much as 50% for International Competitive Bidding, for example), while improving oversight as well as the quality and reliability of decisions.

However, Management acknowledges that, while the benefits of decentralization are spread over the medium-term, there is a need to pay attention to: (i) having a shared understanding of the Decentralization agenda across the Institution; and (ii) strategically managing the human resources to attract more and experienced staff to the FOs.

Looking forward, Management intends to pursue efforts towards further tailoring the decentralization to the needs of different clients.

4 THE 2010-2012 INDICATIVE NON-OPERATIONAL PROGRAMME (INOP)

4.1 Areas of Corporate Focus

Information and Technology Platform: As outlined in the 2009-2011 PBD, IT function plays a key role in terms of security and risk management, organizational effectiveness, knowledge production and dissemination and data production and availability. Management is carrying out a profound review of the Bank's IT architecture; technical skills capacity and infrastructure audit. The outcome of these studies will further inform the ongoing efforts to revamp the IT function. Meanwhile, the incoming IT Chief Architecture Office will help promote the much needed interface between business needs and IT development/alignment in order to leverage ICT to the maximum extent. Finally, the SAP Functional Upgrade Project has been launched and its implementation will allow more efficient and fully integrated processes, paving a way for a smooth implementation of UA Budgeting framework.

Decentralization: The INOP gives priority to activities providing direct support to the development assistance programme as outlined in the IOP, one of the main pillars being decentralization. Supporting complex activities are tailored in a manner to fully support the proposed consolidation of the decentralization programme.

Risk Management Function: The current global financial turmoil has generated new opportunities and challenges in terms of expansion and diversification of operations and financial instruments. The main pressure to respond to demands and increased associated risks affect mainly private sector operations. The Bank will have to enhance its Risk Management function to ensure the integrity of its processes and assets. In this regard, a number of key units will be strengthened in order to mitigate risks associated with our operating environment.

Enhancing Communication: In order to achieve greater results in communication, a clear distinction has been made between external relations and traditional communication activities, such as media relations and knowledge dissemination. External relations will pay more attention to increase the knowledge of the Bank's role on the continent. Networking with major communication platforms, regional and multilateral organizations, as well as with selected decision-makers will be prioritized. The following are major planned activities: (i) continue to leverage the quality of the Bank's website to international standards, while paying special attention to the revamping of the intranet with a view to ensuring that this platform is friendly and provides accurate information to users; (ii) building communication capacity in an effort to change internal communication behavior which will be highly beneficial to the institution's external image building; (iii) direct assistance to Bank's complexes, departments and units to ensure timely and quality communication of their efforts.

4.2 Building Responsive Corporate Services

In general, the Corporate Services Complex will consolidate the implementation of its reforms approved by the Board in 2008.

The HR Strategy, approved in 2007, is at the heart of an ongoing restructured HR function that: (i) builds capacity by attracting and developing requisite, diverse talent, (ii) manages Performance for Results by rewarding it, (iii) promotes staff health and a conducive work-environment, and (iv) strengthens HR Management in order to transform the HR department into a client-oriented department supporting managerial accountability across the Bank. In addition, Management will endeavour to increase training activities for all staff.

The General Services and Corporate Procurement Department will, on top of the business as usual functions, engage itself to: (i) assist the Decentralization process, buying or leasing office spaces as best suit different geographical locations (ii) a need for an up-to-date working environment, (iii) accommodate the needs of an expanded work force, and (iv) to start the medium-term project of refurbishing the Bank Headquarters.

4.3 Strengthening Corporate and Financial Controls

The strategic priorities of the Finance Complex will continue to centre on adding value to Bank Group clients, ensure optimal utilization of the Bank's risk bearing capacity and assist in the development of Africa Bond Markets.

During 2010-2012, the main areas of focus will include: ongoing support for the decentralization programme, implementation and enhancement of capital adequacy framework, improving financial capacity of the Bank through streamlining net income allocation process and capital replenishment, enhancing commercial credit risk assessment to ensure sustainable growth of private sector operations; enhancing treasury risk assessment, monitoring and reporting to ensure financial soundness; while providing adequate response to exogenous shock events.

The Africa Bond Markets will harmonize data for market participants through the creation of comprehensive and dynamic database. FNVP will, during 2010, assist the African Domestic Bond Fund determine its size and mandate; create an African Domestic Bond Index; host regional Stakeholder Workshops, African Bond Market Seminar and the first ever Pan-Africa Domestic Bond Market Conference, to build an enabling environments for the development of domestic bond markets.

4.4 Improving Board Relations

SEGL intends to reinforce and re-profile its internal capacity with the aim of improving delivery. Key activities in 2010 would include the transfer of Elected Officers related activities presently performed by CHRM, and strengthening of Protocol Services in all host countries. An enhanced team in SEGL will positively affect institutional governance, document processing and shareholder relations. Increased resources would also be devoted towards anticipated discussions with countries on membership of the Bank and participation in the Fund, as well as to: (i) enhance the value of Annual Meetings; (ii) strengthen support for Board proceedings and administrative activities; (iii) improve the functioning of the E-Board and other information facilities; (iv) implement web-based centralized meeting/conference management system; (v) staff training; and (vi) lead the Bank centralized indexation and archiving initiative. In addition, SEGL envisages increase in Boards of Governors and Committees meetings as a result of the GCI-VI, ADF-XII, the Contact Group on Board composition, and election of the President. SEGL also intends to host the MDB Secretary Generals/Corporate Secretaries' Forum.

4.5 Reinforcing Risk Management and Fiduciary Responsibilities

The General Counsel and Legal Services Department (GECL) will continue to provide legal services to all units of the Bank including its decision-making organs and Senior Management. Among the critical areas of focus during the Medium Term Strategy, GECL will guarantee proper legal due diligence in enabling the Bank to preserve its financial soundness and integrity, as well as ensure that its operations are financially sustainable. It will play an important role in risk management initiatives; advise on the borrowing programmes; participate fully in work on the sixth general capital increase (GCI-VI), and the ADF-12 negotiations during 2010.

The revamped Security Unit (SECU) is expected to offer quality security support with a focus on strengthening the decentralization process and protect Bank's property, information, reputation and human resources. The Security Unit will focus on: (i) security assessment for risk analysis of each location; (ii) crisis management training, linked to BCP; (iii) methodology to guard against risks to core business; and (iv) providing strategic IT Security implementation to monitor and secure our information.

CRMU will focus on raising awareness and review performance of IRM and monitoring the implementation of decisions on action plans for 2009 requests.

The Office of the Auditor General will continue to deliver its institutional mandate in terms of internal auditing and combating corruption and fraud. However, the coverage of its activities will expand due to increased risks inherent in the growing and diversification of Bank's Operations, Offices and financing instruments. Concomitantly, the Board has asked to increase coverage of operations due to financial and food crises and the risks associated with the instruments that the

Bank will be using (i.e. fast disbursing instruments such as budget support to address the financial and food crises). Concerning auditing, OAGL is currently covering an average of 5 FOs per year which means visiting each FO every 5 years. This is considered low; it is expected to gradually increase the coverage frequency (to 3- 4 years, eventually 2 -3 years) and the number of audit staff weeks during the period 2010 - 2012. There are also additional auditing needs related to the expansion of private sector operations.

For combating corruption and investigating fraud, OAGL plans a greater involvement in the following activities: (i) development of technology to minimize risks of fraud and corruption in procurement and operations (procurement red flagging aspects have begun with the hiring of a consulting firm); (ii) detailed fraud/corruption exposure reviews of selected sectors and Bank-financed procurements; (iii) prevention and sensitization within and outside the Bank; (iv) increasing importance of the whistle-blowing policy within and outside the Bank.

4.6 Consolidating Budget Reforms

The Board of Directors approved a set of Budget Reforms on 15 June 2007, which has: (i) strengthened the link between institutional priorities and resource allocation; (ii) enhanced institutional budget flexibility through increased fungibility and devolved authority; (iii) resulted in establishing a new accountability and performance framework by linking deliverables to Key Performance Indicators (KPIs); and (iv) introduced a multi-year budgeting framework. The underpinning objective of these reforms is the transition to a fully decentralized resource management framework through a strategy-driven Unit of Account (UA) budgeting system, (that ensures the Bank delivers better results on the ground), which will go live in January 2010.

UA Budgeting and Increased Fungibility

The key objective of the UA Budgeting framework is to introduce greater efficiency, transparency and flexibility in the allocation and management of resources. Management will encourage efficient resource usage and, following the removal of headcount control, staff planning will be reinforced. Cost savings and efficient use of resources will continue to be emphasized in all spheres of Bank Group activities, while non-fungibility rules governing centrally managed budgets will remain in force at HQ and FOs.

To support the new framework, budget management capacity will continue to be strengthened at VPU level, as well as down to Divisions and Field Offices, while monitoring roles will be reinforced. Budget Coordinators and Focal Points will be provided with training whilst Managers will be assisted in optimizing the use of their allocated resources to better leverage the expanded flexibility in resource management for higher performance.

Staff Planning

Staff planning will be reinforced as compensating control to enable VPUs determine their staffing needs and actions required to meet those needs. The Fixed-Cost Ratio (FCR) will be introduced to mitigate the potential risk of overspending on staff costs. The final 2010-2012 PBD will include an Annex for 2010 VPUs' staffing plans for 2010.

Staffing plans will take the following into account; (i) Work Programmes' needs, in terms of; staff numbers, skills, experience, and grade levels; (ii) expected turnover and timing, with

planned promotions and hires, and (iii) CHRM guidelines on average salaries for planned hires and promotions.

Time Recording System (TRS)

TRS will be reintroduced to obtain average cost of outputs, (i.e. products and processes). Management will ensure staff buy-in, user friendliness and web enablement. As a start, it will be implemented for PL staff in Operations Departments, and once stabilized in this area; it will be extended to other staff and Non-Operations Departments. The intention is not to monitor how staff spends their time, but to have reasonable costing data for Bank's activities.

The TRS will assist Cost Center Managers to further improve plan and monitor their WPs and related costs; better understand spending patterns; and identify opportunities for efficiency improvements. It will also support budget management and serve as a tool for managerial accountability.

PART C - IMPLEMENTATION AND MONITORING FRAMEWORK

5 REINFORCING CAPACITY TO DELIVER

5.1 Improved Coordination and Corporate Performance Monitoring

In accordance with commitments made in the 2008-2012 Medium Term Strategy (MTS), the Bank has established and filled the position of Chief Operating Officer (COO) in charge of ensuring overall coherence and coordination across complexes, alignment of resources along strategic priorities and enhanced monitoring and management of corporate performance.

Key priorities for the COO Office include the effective implementation and sustained focus on the ambitious institutional reform agenda approved in 2006 to boost the Bank's delivery capacity and institutionalize a result-based culture. The COO Office is building on progress made to date on decentralization, budget reforms, human resources management, performance monitoring and business processes and will ensure these corporate initiatives yield the expected benefits.

Coordination and review of management and operational processes have been further enhanced through strengthening the role of the Senior Management Committee (SMCC) and the Operations Committee (Ops Com). The SMCC will continue to play a pivotal role in ensuring the Bank Group's functions operate with optimal efficiency and effectiveness, in compliance with corporate policies and procedures and in line with strategic priorities. Similarly, the Ops Com forum will focus increasingly more on strategic selectivity and additionality in the Bank's Operations, while ensuring the quality of Country Team and Peer Review discussions incorporate lessons learned and inform future improvements.

While Key Performance Indicators (KPIs) are now integrated in the Bank's accountability framework, the Performance Monitoring Group (PMG), with effective representation from all Complexes, will continue efforts in mainstreaming performance monitoring across the Bank. Key achievements expected in 2010 include the introduction of cost effectiveness indicators for the Bank's deliverables.

5.2 Monitoring Framework

The Monitoring Framework for the Work Programme 2010-2012 will be built on experience gained during the last two years and will leverage on two pillars: (i) the VPU Budget and Resources Management Coordinators; and, (ii) the Performance Monitoring Group (PMG) which has been playing a central role in disseminating a monitoring culture.

At this stage of the cultural change, internal communication plays a crucial role in reinforcing the Bank claim to become a Results-Focused Organization. For this reason the PMG Intranet Page is seen as an important tool for timely and extensively disseminating information and promoting awareness : (i) quarterly Budget and Performance Reports already published in it will be enhanced with “push technology” tools (capital budget implementation report is already using this feature), (ii) “historical” KPIs, like lending volume or Knowledge Management Products, will be proposed in real time update, (testing for a Management Dashboard is ongoing), (iii) monthly Complexes’ budget and performance reports will be added to the page library.

With the introduction of UA Budgeting and related IT tools, it will now be possible to monitor and report budget implementation by deliverables (Work Breakdown Structure –WBS - elements. This will apply only for Operations at the beginning); to follow budget execution in respect to Fixed Cost Ratios; and, to see the implication on budget utilization of the rolling staff planning updates.

Indicators to allow historical comparison and trend analysis will be kept whilst new KPIs will be introduced with the scope to: (i) moving to more qualitative analysis of performance and (ii) closing the gap between performance analysis (outputs/outcomes) and results evaluation (results/impacts). KPIs targets for the three coming years will be agreed and will maintain consistency with the MTS goals. Management will also continue to refine the quality of Efficiency Indicators.

5.3 Benchmarking

The WBS and the TRS will be the basis for a cost accounting system for WP products/processes. These will allow better quality and more objective data for internal benchmarking: similar products will be comparable in costs on country/regional and/or sector basis. Management will also be in position to identify high value/low costs or, conversely, low value/high costs activities and thus better allocate and prioritize Work Programme activities.

The work started last year on external benchmarking has continued. Early this year, the Bank participated in the launch, on an experimental basis, of an IFIs website in an attempt to establish comparable data marks. At present, the nature of IFIs, their internal policies, definitions and structures are considered too different, therefore making the various IFIs highly un-comparable from a simply quantitative viewpoint. Nevertheless, for the 2010 – 12 budget cycle, Management will also indicate the benchmarking indicators used for the 2009 - 11 PBD. This would be an attempt to include further clarifications and indications in order to better position the Bank’s standing vis-à-vis other sister Institutions.

5.4 Quality Assurance and Results Reporting

Strengthening quality assurance and results is also necessary to improve significantly products and services. To this end the Quality Assurance and Results Department is coordinating the implementation of the Action Plan for Quality and Results (APQR). Work will continue in several aspect of the APQR: (i) a Readiness Review tool to enhance Quality at Entry; (ii) Building the capacity of field office staffs for greater responsibility; (iii) Strengthening the results culture of the Bank; (iv) Revamping policy, procedures and formats for timely projects' completion; (v) Automated results reporting system; (vi) Output and outcome indicators for operations to permit more effective evaluation and reporting; (vii) Overcoming the rules-based mindset of the Bank. Management is aware of the fact that the Performance Monitoring functions with its focus on performance, outputs and outcomes and the Quality and Results functions focused on results and impact are looking at different time-frames of the Bank activities and they complement each other, and further effort is required to create a continuum within the monitoring framework with the goal of covering the whole time-frame: activities/outputs/outcomes/results/impacts and moving to a set of Indicators with more qualitative content.

PART D - RESOURCES IMPLICATIONS

6 ESTIMATE OF THE 2010-2012 RESOURCES

In line with the principles of the multi-year budget process introduced in the second phase of the Budget Reforms, Management submitted to the Boards in December 2008 a three-year rolling Programme and Budget for the period 2009-2011. The Boards formally endorsed the 2009 Programme and Budget and took note of Management's intentions regarding 2010 and 2011.

Consistent with the Reform's guiding principles, Management has reviewed the Programme set for 2010 and adjusted it to reflect new opportunities and necessary re-prioritization of planned deliverables emerging from the Bank's dynamic business environment.

Moreover, the unit costs used in 2008 to evaluate the 2010 and 2011 budgets have been updated to allow for a more realistic appreciation of price changes affecting the Bank's capacity to deliver (in particular contracts revaluation, air travel costs, inflation rates and impact of currency exchange rates). All Staff positions approved with the 2009 Budget will be costed for the full 12 months in 2010.

The 2010-2012 Work Programmes and associated budget envelopes are being critically reviewed in the light of previous years' performance on key indicators to ensure greater efficiency in allocation and use of resources. Measures have been implemented to reduce the recurrent issue of budget under-execution. In particular, staff recruitment and retention policies have started to yield positive results which will guarantee a more optimal use of available resources and higher implementation rates in future years.

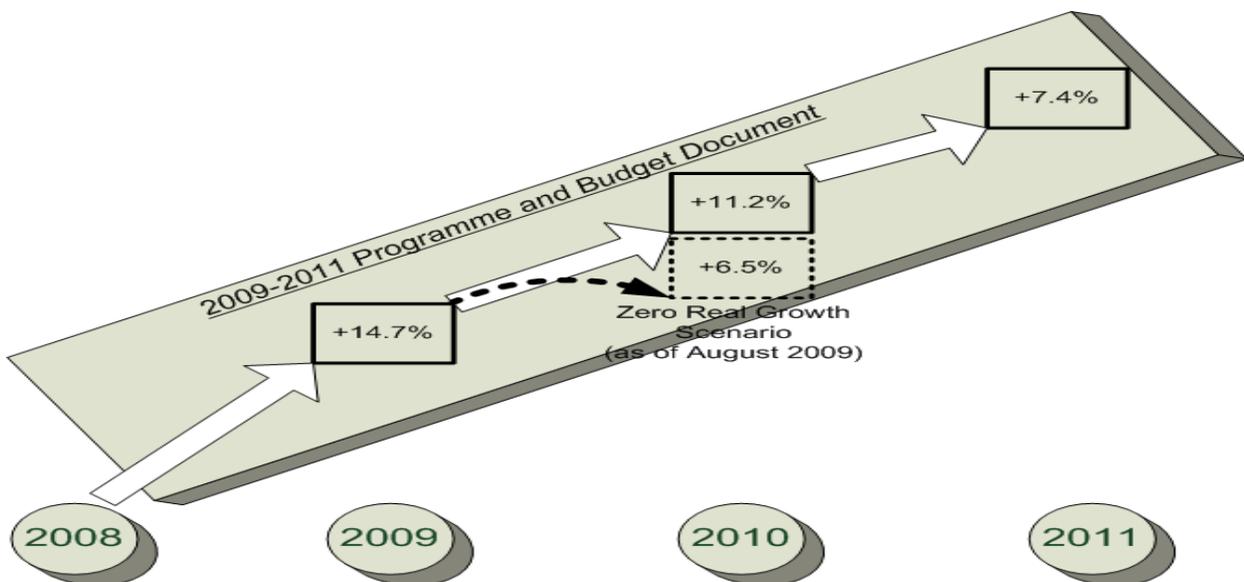
6.1 Budgetary Implications of the 2010-2012 Work Programme

The 2009-2011 Programme and Budget Document anticipated, on the basis of 2008 prices, an administrative resource requirement of UA 281 million and UA 302 million to support the Bank's comprehensive work programme in 2010 and 2011. Those resource projections represent budget year on year increases year of 11% and 7% for 2010 and 2011 respectively. After making

adjustments, as discussed in the section above, to unit costs would result in even higher percentage increases.

The 2008-2012 MTS projections anticipated an average budget increase of 5% in real terms every year (i.e 25% over 2008-2012). Management is committed to remaining within this margin. For 2008 and 2009, real annual budget growths were 5.29% and 9.02% respectively. This leaves 10.69% which can be spread over the remaining three years. However, Management intends to focus, during 2010, on consolidating the growth realized in 2008 and 2009 i.e. an initial position of zero real growth for 2010 with a projected 6% and 4.69% real growth respectively in 2011 and 2012. This scenario yields a 6.5% nominal growth over the 2009 Budget, bringing the projected total administrative budget envelope to UA 269 million.

The figure below shows the annual budget growths proposed in the 2009-2011 PBD and illustrates the impact of a zero real growth scenario hypothesis for 2010.



It should be noted that, despite the overall zero real growth in 2010, there will be some areas of continued growth, in particular risk management, which includes IT functions; communication; and, decentralisation. Furthermore, depending on early performance in the delivery of the 2010 Work Programme, and the level of pressure on the Bank to respond to unforeseen priorities (e.g. a deepening of the crisis or emergence of new, additional ones), Management might consider an adjustment of the Programme and Budget Document – though endeavouring to remain within the available 10.69% MTS headroom.

Operational Work Programme

The operational work programme submissions are aligned with the priority sectors discussed in the Medium Term Strategy (MTS), and include initiatives supporting responses to the financial crisis. Further preference is also given to areas demanding scale-up – i.e., agriculture, gender, climate change, fragile states, and regional integration. Final arbitration across Operations Complexes is still ongoing and will result in trade-offs and postponement of a number of activities to 2011 and 2012 to ensure the sustainability of the 2010 budget.

Non-Operational Work Programme

The Indicative Non-Operational Programme submissions are consistent with the goals and activities of the Indicative Operational Programme. Preliminary data from the Work Programme show that budget proposals are largely driven by the following: (i) programmes to strengthen CHRM's capacity to meet expected growth in recruitment, expanded learning development agenda, the finalization of the FOs payroll system, and initiatives pertaining to diversity, staff training, staff retirement, health and welfare; (ii) strengthening the communications unit for expanded outreach and communication activities; and (iii) reinforcing IT platform; (iv) consolidating decentralization; (v) enhancing risk management function and; (vi) plans to equip the new building at Berges du Lac (Zahrabed) and to expand office facilities in several FOs.

Further arbitration will be carried out over the coming month to guarantee that cost containment and efficiency gains measures can be implemented to ensure that service Departments provide a targeted and optimized support to Operations.

Work Programme Feasibility, Absorption Capacity and Staffing Implications

During previous fiscal years, the low budget execution rate at year-end created doubt on the Bank's absorption and Work Programme delivery capacity. The Bank's vacancy rate was identified as the key contributing factor and Management took measures to accelerate the recruitment process and to enhance the Bank's capacity to retain staff. These measures have led to a steady increase in the number of staff at post as shown in the table below.

	<i>Mid-Year 2008</i>	<i>Year-end 2008</i>	<i>Mid-Year 2009</i>
<i>Number of Staff at Post</i>	1397	1491	1586
<i>Overall Vacancy rate</i>	16%	14%	10%

This trend should continue during the second semester of 2009 and result in a vacancy rate below 4% on 31 December 2009.

6.2 Administrative Expenses Budget and Major Cost Drivers

Medium Term Strategy

Decentralization – Over the next three years, additional staff are projected to be relocated to FOs. Furthermore, Management will shortly be seeking Board's approval of a Programme to construct/buy new facilities for selected FOs.

Staff Compensation and Benefits – Certain policies and events have added pressure on staff costs. These include ongoing recruitment plans, proposed child care subsidies, and the increase in tuition expenses in Tunis. These pressures are estimated to increase staff cost in 2010.

Priority areas – Areas of focus indicated in the MTS will obtain a greater portion of the administrative budget.

7 THE 2010-2012 CAPITAL BUDGET

In line with the Capital Budget Guidelines, the two governing bodies have been carrying out a thorough review of the ongoing portfolio, as well as a number of projects for possible inclusion in the 2010 - 2012 PBD. This exercise is expected to release resources for the new investments.

The indicative pipeline shows that the major investment plans are: (i) Renovation of the Headquarters building in Abidjan, (ii) construction of new Bank premises in thirteen countries and expansion of existing facilities in several field offices, (iii) capital investment for business continuity site in Tunis and replacement of furniture and equipment for some offices in ATR Tunis (iv) Upgrade of the IT and Communication Infrastructure and Systems - including SAP, and (vii) replacement of vehicles for some Field offices.

It is important to note that there is an ongoing IT architecture study, whose conclusions will be used to determine the scale of future IT investment plans. In particular, it is envisaged that this study – expected to be completed in December 2009 – will propose limited additional IT capital investments in 2010.

Capital budget projected for 2010-12 amounts to UA 60.92 million. It is estimated that 10%-20% of the total capital budget will come from redeployment from completed projects and from the cleanup exercise.

8 RESOURCE ESTIMATES

8.1 Internally Generated Resources

The Table below gives preliminary income projections based on zero real budget growth, but taking price adjustment into consideration. The Bank Group's annual operational income could be considered adequate to sustain the projected Budget.

Income Projections 2009-10 (UA millions)

	2009	2010
Operational Income		
ADB	229	300
ADF	186	205
NTF	4	3
Total	419	508
Net Income		
ADB	141	196
ADF	5	21
NTF	2	2
Total	148	219

8.2 Bilateral and Multilateral Resources

Closer cooperation with the donor community and more transparent fund allocation internal processes will yield greater efficiency in the use of trust funds resources and help reduce pressure on internal resources supported by the Bank's incomes. As a result all available resources

(internal, external, co-financing, donor-funded Technical Assistants and Secondees) will be more readily available to address additional financing needs.

9 REHABILITATION OF THE HEADQUARTERS IN ABIDJAN

The Capital budget approved by the Board in June 2009 for the headquarters rehabilitation amounted to UA 47 million. Of this amount, UA 11 millions constitutes approved redeployment from existing capital projects and is available for immediate use. The balance of UA 36 million is programmed as follows (in UA):

2010	2011	2012
15 million	15 million	6 million

The rehabilitation – scheduled for two years starting May 2010 - will require staff (based in Abidjan) to be relocated to a temporary location, the cost of which is estimated at UA 150,000 per year. However this operation is estimated to be cost-neutral because the savings (estimated at UA 200,000) to be generated from terminating some services/maintenance contracts and reduction of the usage of some public utilities will be used to finance the rent of the temporary premises.

10 CONCLUSION AND NEXT STEPS

10.1 Conclusion

The 2008-2012 Medium Term Strategy was formally adopted by the Board of Directors in December 2008 and endorsed by the Board of Governors during the 2009 Annual Meetings. 2010 will be its third year of implementation. A lot of changes have occurred in the Bank's business environment since the work on drafting the MTS started. The Bank is experiencing a number of unforeseen challenges and demands during the implementation of the 2009-2011 Programme and Budget Document. This Framework Paper has outlined an ambitious 2010-2012 Indicative Work Programme and implied resources. It is submitted to the Board of Directors in order to share with them Management's views on ways to respond to emerging crises while remaining focused on the priorities outlined in the MTS and to seek their guidance.

To implement the Bank's 2010 Work Programme, Management will propose a zero real growth baseline. Projections for 2011 and 2012 are expected to be at 6% and 4.69% growth respectively (in real terms).

10.2 Next steps

The Boards of Directors are invited to consider the Bank's 2010-2012 PBD Framework Paper and projected resource requirements and to provide management with guidance. Management will, in early November, submit to the Committee of the Whole a draft 2010-2012 PBD for consideration.