

Chapter 6

Quality of Bank operations

The Bank needs to keep its portfolio of operations under close scrutiny to ensure they perform well and to maximise development outcomes and returns on investments. This chapter assesses how we manage our portfolio of projects across the continent. We also look at progress in strengthening our results at the country level, and how well we are bringing gender and climate into the mainstream of our strategies and projects.

Strengthening results at the country level

Our country strategies are aligned with the national and regional priorities and policies of our regional member countries. They set out our medium-term objectives and how we will allocate our resources. They also reflect the Bank's focus and comparative advantage as a development partner.

We measure the quality of our Country Strategy Papers (CSPs) using our readiness review tool. On a scale of 1 to 6, the ● **average CSP rating** in 2015 was 4.3, which was below our target of 5.

The Bank is reviewing the way CSPs are prepared and drafted. One of the main innovations in our approach is the adoption of new results tools that will improve the Bank's strategic alignment and tracking of results in a comprehensive manner at the country level. The new CSP process is being piloted in Mozambique, and key lessons will enable us to fine-tune the approach before the Bank implements it more widely.

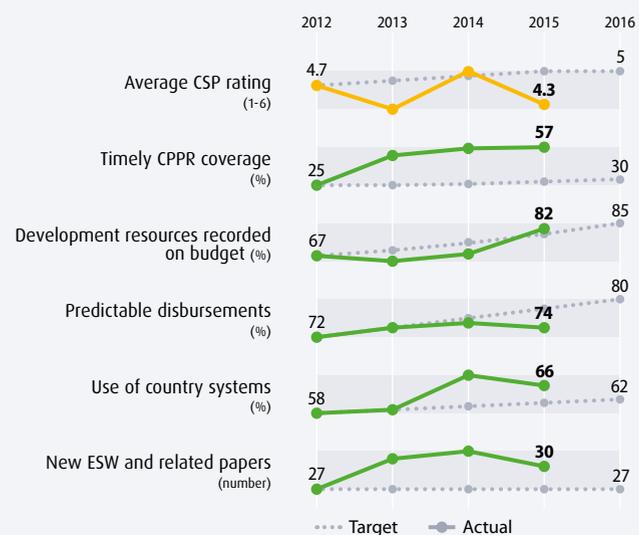


We are adopting new tools that will improve the Bank's strategic alignment and tracking of results in a comprehensive manner

The broader objective of the new CSP approach is to ensure strategic and consistent alignment with the Bank's objectives, in order to respond flexibly to regional member countries' priorities and promote strong partnership between the Bank and other development partners. The new CSP approach also aims at improving the efficiency of the Bank's business processes by reducing the financial, human and administrative costs of preparing country strategies.

During 2015, independent evaluations were carried out for Cameroon, Ethiopia, Senegal, Tanzania and Togo. We acknowledged the need to ensure that the Bank's interventions are selective and sustainable. Newly approved country strategies have benefited from

Figure 10 Strengthening results at country level



the independent evaluations' analyses and recommendations, and key lessons were integrated.

Once strategies are approved and projects are implemented, we regularly undertake country or regional portfolio performance reviews (CPPRs), often during the preparation of our strategies and related reports, to ensure that portfolio performance is closely linked to strategy and project planning. Over the last year, 57% of our countries achieved ● **timely CPPR coverage**, up from 56% in 2014. These reviews are carried out in a participatory manner and draw findings from stakeholder consultations. They inform us whether our programmes are on track and prompt us to take action when necessary.

We remain committed to the global aid effectiveness agenda and are making progress against the three indicators under the Global Partnership for Effective Development Cooperation (GPEDC) agreed in

Table 1: How well AfDB manages its operations (Level 3)

This table presents the Bank's progress in achieving its 2015 targets for portfolio management.

- We have achieved or are within 90% of achieving the target
- We are regressing against the baseline or are within 80% of achieving the target
- We are not moving towards the target
- Data points are missing

INDICATOR	AfDB			ADF	
	Baseline 2012	Latest 2015	Target 2015	Baseline 2012	Latest 2015
STRENGTHENING RESULTS AT COUNTRY LEVEL					
● Average CSP rating (1-6)	4.7	4.3	5	4.7	4.2
● Timely CPPR coverage (%)	25	57	28	19	65
● Development resources recorded on budget (%)	67	82	79	67	82
● Predictable disbursements (%)	72	74	78	72	74
● Use of country systems (%)	58	66	61	58	66
● New ESW and related papers (number)	27	30	27	..	15
DELIVERING EFFECTIVE AND TIMELY OPERATIONS					
Preparing high-quality operations					
● Time to first disbursement (months)	13	12.7	11	12	12.6
● New operations rated satisfactory (%)	96	99	95	96	98
● Time for approving operations (months)	7	6.3	6	6	6.3
Ensuring strong portfolio performance					
● Disbursement ratio of ongoing portfolio (%)	22	21	23	18	18
● Time for procurement of goods and works (months)	8	7.9	8	8	7.9
● Operations with satisfactory mitigation measures (%)	60	87	72	45	88
● Operations no longer at risk (%)	28	36	31	25	37
● Operations at risk (%)	19	15	17	21	16
● Operations eligible for cancellation (%)	9	19	7	9.5	19
Learning from our operations					
● Completed operations rated satisfactory (%)	75	83	78	74	83
● Completed operations with sustainable outcomes (%)	81	90	87	79	92
● Completed operations with a timely PCR (%)	91	60	95	91	61
DESIGNING GENDER- AND CLIMATE-INFORMED OPERATIONS					
● New CSPs with gender-informed design (%)	75	100	90	70	100
● Projects with satisfactory gender-equality outcomes (%)	67	61	73	69	56
● New projects with gender-informed design ¹ (%)	78	75	87	75	82
● New projects with climate-informed design (%)	65	75	95	65	90

.. = Data not available; AfDB = African Development Bank; ADF = African Development Fund; CSP = Country Strategy Paper; CPPR = Country Portfolio Performance Review; ESW = economic and sector work; PCR = Project Completion Report.

¹ This indicator builds on five dimensions: sector-specific gender analysis, a gender-equality-related outcomes statement, a gender-equality-related baseline, specific activities to address gender gaps, and adequate budgets and human resources to implement the activities.

Source: African Development Bank

Busan, Korea, in 2011. As such, we work closely with governments and other development agencies to make development assistance more effective in achieving its goals.

- ▶ During 2015 we achieved 74% of ● **predictable disbursements**, close to our target of 78%. We will continue to improve our efforts to help governments integrate our financial assistance into their annual budgets, making overall resource allocation more efficient.
- ▶ We have made progress with ● **development resources recorded on budget**, with 82% in 2015, compared with 68% in 2014. This indicator translates both our capacity to accurately reflect our financial contribution in national budgets and the improvement of the capacity and quality of national donor monitoring frameworks. The improvement also reflects the increased coverage of our survey at the Bank level.
- ▶ Our ● **use of country systems**, which assesses the channelling of our funds through country public financial management systems, decreased slightly to 66% this year but remains above our target of 61%. This is an important indicator for reinforcing national procurement and financial management capacities.

At the country level, the Bank is a trusted and active development partner. We belong to some 250 sector or thematic groups across the continent, an average of five per country. In 2015, we chaired 74 of these groups. As a result, we are well placed to engage in a constructive dialogue with our clients to address their financing needs. In the energy sector for example, we are administering the Sustainable Energy Fund for Africa (SEFA) a multi-donor trust fund with over \$50 million committed into investments in renewable energy and energy efficiency projects. SEFA leverages the AfDB's experience and convening power to play a key role in helping unlock this potential by scaling-up investments in small to medium-sized energy projects for climate change mitigation on the African continent.



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African countries are now more frequently relying on knowledge as a source of competitiveness and innovation, and they are increasingly demanding that the Bank share knowledge solutions to address their most pressing needs. Our knowledge work is also central to the effectiveness of our operations and advisory work. We share our knowledge products with our member countries and other key stakeholders such as nongovernmental organisations and development partners, to contribute to the understanding of challenges and opportunities in Africa.

Last year, the Bank approved its Knowledge Management Strategy for 2015–2020. The objective of the strategy is to ensure the Bank becomes Africa's premier knowledge institution. In addition

to enhancing the effectiveness of our operations, the strategy strengthens the quality of our policy dialogue, advisory services and involvement in the development debate.

In 2015, we produced 30 ● **new economic and sector work products** against our target of 27. These analytic products included flagship reports on the East African energy and transport sectors; reports on private sector development and employment in Angola, Mauritania and Lesotho; and studies on economic diversification in Sudan and Swaziland.

Delivering effective and timely operations

Delivering high-quality results requires the highest standards of project design and implementation. We need to ensure that our projects are tightly focused on delivering results and that their benefits are sustained after the projects are completed.

We monitor a number of indicators that show our efforts to improve the quality and timeliness of our operations throughout the project cycle, from preparation of the concept, through to implementation, supervision, closing, evaluation and learning. Our targets are therefore demanding ones, pushing us to improve our performance at every stage of our operations.

Preparing high-quality operations

Quality at entry is the foundation of successful project implementation, and the achievement of the intended development results relies on a well-designed project. One way we ensure the quality of our projects is by using our readiness review tool, which assesses the extent to which project appraisal reports meet the Bank's quality-at-entry standards.

During 2015, 99% of our ● **new operations were rated satisfactory**, above our target of 95%. The ● **time taken to approve our operations** remained stable at 6.3 months in 2015, close to our target of 6 months. In recent years, the Bank has made considerable progress in reducing delays to first disbursements — from an average of 21 months in 2007 to 10.6 months in 2014.

However, in 2015 the Bank regressed in the ● **time to first disbursement** for new projects, which increased to 12 months, above

Figure 11 Preparing high-quality operations



our target of 11 months. Measuring the time elapsed from Board approval to first disbursement is a good indicator of our operational performance. It is typically at project start-up that poorly designed operations experience problems and delays in implementation. Some of the delays can be explained by weak institutional and management capacity in some member countries, leading to slow project implementation and delays in procurement and in meeting disbursement conditions. Delays in disbursements can also be attributed to fragility situations, conflicts, political transitions and complex in-country processes, including obtaining parliamentary approval for ratifying loans.

To accelerate our performance, we have adopted a new directive that reduces our target for first disbursement to 6 months. This will improve projects' quality at entry by requiring operations teams to undertake the necessary preparatory work in advance.

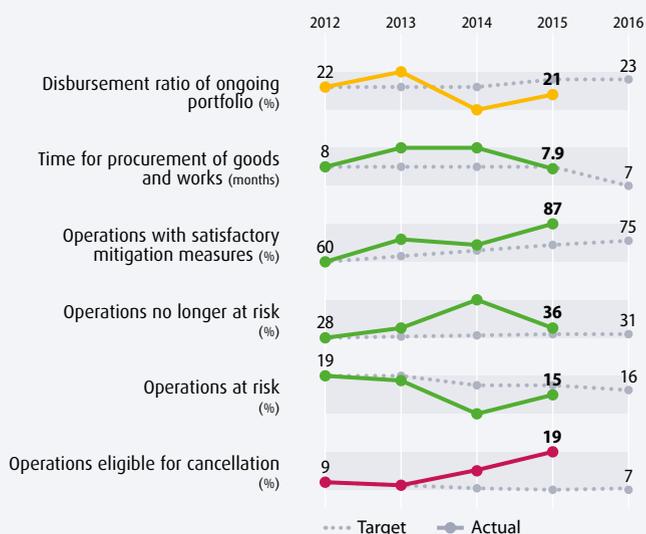
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For private sector operations, we have revised our approach to assessing additionality and development outcomes, with a greater focus on inclusive and green growth, a redefinition of some development outcomes categories, and an improved assessment of our financial intermediaries.

Ensuring strong portfolio performance

We are continuing to improve the management of our portfolio by providing adequate supervision of the implementation of our ongoing operations.

Figure 12 Ensuring strong portfolio performance



By measuring the pace at which the Bank makes resources available to clients, we monitor the speed at which the Bank implements its portfolio of projects. In 2015 our overall **disbursement ratio** stood at 21% — just below our target of 23%.

Another measure of efficiency is the average **time for procurement of goods and works**, from bid reception to contract signature. During 2015, it improved from 9 to 7.9 months, slightly above the target. A diligent yet speedy process is critical to implement projects on time and contribute to a reasonable disbursement ratio. Implementation of the revised procurement framework, which fosters extensive use of national procurement systems, has accelerated procurement and project implementation.

To sustain positive trends and turn around areas of unsatisfactory performance, AfDB management has begun implementing the following key recommendations from recent internal reviews of projects qualifying for cancellation and of procurement delays:

- ▶ strengthening the technical review processes;
- ▶ enhancing accountability on portfolio performance matters;
- ▶ shifting focus and resources towards upstream project preparation activities to enhance project readiness for implementation before Board approval; and
- ▶ establishing training programmes for task managers on designing, approving and supervising operations.

We are expecting these actions to reduce project processing times. This would be a timely achievement, as the Bank experienced a record year for Bank project approvals in 2015, putting pressure on the Bank's capacity to disburse quickly in the coming years (see Box 11).

The Bank experienced a record year for project approvals in 2015, putting pressure on our capacity to disburse quickly in the coming years

We have been proactive in addressing the challenges that can hold up project implementation. Of the projects identified as problematic at the beginning of 2015, 36% were successfully brought back on track and are **no longer at risk**. This enabled us to stabilise the overall proportion of **operations at risk** at 15%. However, the share of **operations eligible for cancellation** has increased to 19% from 13% in 2014, well above the target of 7%. These are operations that have lapsed or are not performing; they should be either redesigned or cancelled, and the resources reallocated to more productive operations. The Bank has begun implementing measures to ensure that loans and grants are signed in a timely manner and that non-disbursing projects are cancelled within reasonable periods in line with new guidelines.

A Bank review of projects eligible for cancellation revealed several key systemic issues requiring attention: inadequate structuring of projects; ineffective review processes; and limited ownership and pro-activeness of some client countries to expedite signature, ratification and fulfilment of conditions. The same review recommended strengthening the accountability of country and regional teams, including: having the most seasoned staff in the quality-at-entry review process; revising key performance measures to shift the focus from approval of operations to signature and disbursement; and enhancing country responsiveness to start-up delays by imposing restrictions on any new projects in the same sector.

The Bank is committed to minimising any negative social or environmental impacts of its projects

The Bank is committed to minimising any negative social or environmental impacts of its projects by ensuring that the risks are carefully assessed and measures put in place to mitigate them. Besides monitoring risk through our implementation progress reports, we conduct environmental and social audits that assess our compliance with environmental standards. In 2015, 87% of our **operations had satisfactory mitigation measures**, an improvement on 2014 and above our target of 72%.

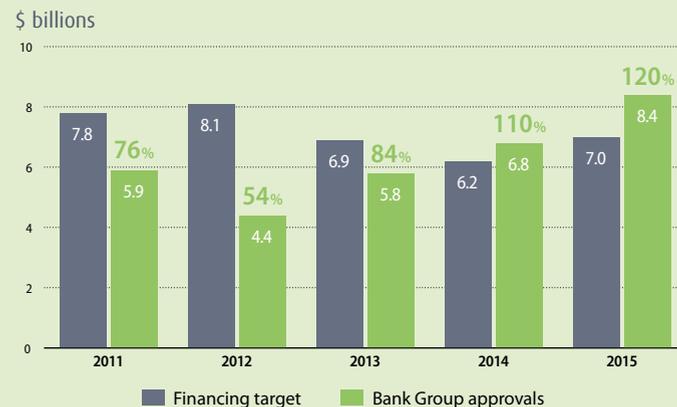
Learning from our operations

We must continually build knowledge on what works in development assistance. Therefore, we capture project results and lessons and make them available to inform future programming. We have made major efforts in recent years to provide an evidence-based rating system that ensures that operational results are properly captured throughout their lifecycle. The Project Completion Report (PCR) is one of the tools through which we capture lessons from completed operations. Completing PCRs promptly at the end of projects is important for lessons to be useful.

We build sustainability into our projects by developing new funding mechanisms to cover long-term maintenance costs

However, as of the end of last year, just 60% of our **completed operations had a timely PCR**, significantly below our target of 95%. We continue to engage and support project teams in promptly finalising and raising the quality of PCRs, and we monitor our performance and progress towards our targets on a quarterly basis. Project teams are putting more effort into properly planning and budgeting PCR preparation and/or extending the closing deadline when operations do not reach the completion stage.

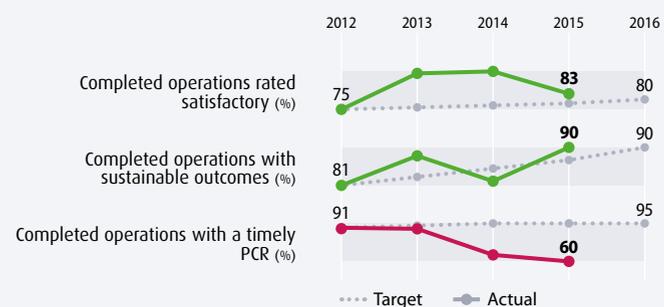
Box 11 2015: Record year for Bank project approvals



Analysis of Bank Group approvals in recent years shows that the Bank approved 42% more financing operations in 2015 than in 2011. The higher numbers of approvals under the non-concessional window in 2015 can be explained as follows: four countries (Zambia, Cameroon, Kenya and Congo Republic) that graduated to blend status accounted for about \$990 million; Senegal, Uganda, and Tanzania accessed \$820 million of ADB public resources owing to the provisions in the amended credit policy; and increasing demand from such non-traditional borrowers as Angola and Namibia accounted for \$590 million. The higher numbers of approvals under the private sector window can be explained by increasing demand for guarantee instruments (\$562 million), business development efforts, and trade finance instruments.

Source: AfDB

Figure 13 Learning from our operations



In 2015, 83% of **completed operations were rated satisfactory** — well above the target of 78%. The ratings cover, among other things, relevance, sustainability and the extent to which the project has effectively delivered on the intended objectives on time and on budget.

Our investments aim to provide lasting benefits to beneficiaries. Sustainability is built into our projects in many ways: for example, by training national officials or developing new funding mechanisms to cover long-term maintenance costs. As a result, we achieved

90% of ● **completed operations with sustainable outcomes**, which was above our target. However, sustainability is sometimes a major challenge, partly because of weak national human and financial resources devoted to this area (see Box 12).

Box 12 Togo: improving sustainability of projects

In Togo, a recent independent country evaluation found that Bank projects were well designed but needed to approach sustainability as a strategic issue. Beyond the policy dialogue, sustainability must be a subject of rigorous analysis to provide sustainable solutions for the Bank's programme in Togo.

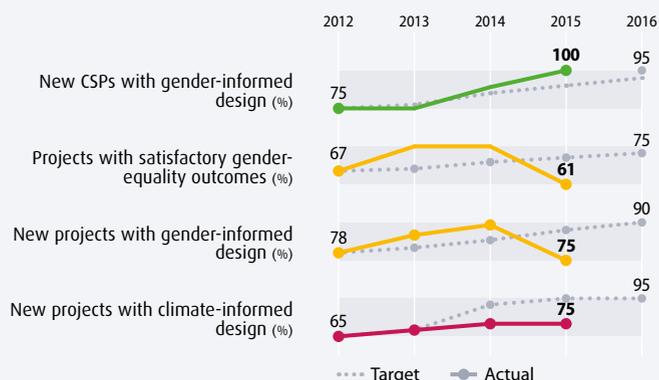
The evaluation found that sustainability of infrastructure is not guaranteed for various reasons: lack of road maintenance, overload regarding road projects, insufficient country ownership and environmental effects. The issue of sustainability regarding governance projects related to continuation of the reforms initiated, retention of trained staff and maintenance of investments in computer hardware.

The Bank will continue to promote the inclusion in the country budgets of provisions for long-term maintenance. The Bank will also encourage the government to adopt indicators and targets to monitor progress in ensuring the sustainability of investments, such as the publication of statistics on the systematic weighing of trucks at the exit of Lomé Port. The sustainability issue will be addressed comprehensively beyond the maintenance challenges of project achievements, and the Bank will continue to support the strengthening of project implementation units within ministries instead of creating parallel project management units.

Designing gender- and climate-informed operations

Promoting gender equality and responding to climate change are among our cross-cutting priorities, which we aim to integrate into the design of operations wherever possible. Thus we assess all new projects for their contribution to gender equality and their response to climate change.

Figure 14 Designing gender- and climate-informed operations



To increase the focus on gender issues in our projects, all our projects are assessed at the design stage according to five criteria that measure how effectively gender mainstreaming has been built into the project:

- ▶ sector-specific gender analysis;
- ▶ a gender-equality-related outcomes statement;
- ▶ a gender-equality-related baseline;
- ▶ specific activities to address gender gaps; and
- ▶ adequate budgets and human resources to implement the activities.

This assessment better informs the project design, and is also used to better monitor gender mainstreaming in Bank operations.

In 2015, all our new country strategies had a gender-informed design

In 2015, the proportion of ● **new projects with gender-informed design** was 75%, compared with a target of 87%, while 61% of our ● **projects had satisfactory gender-equality outcomes**, below our target of 73%. We expect these results to improve. The Bank is introducing gender-marking to differentiate projects in terms of their likely contribution to gender equality goals. Projects identified this way will have a Gender Action Plan and receive more support from gender experts.

We also regularly conduct country-specific gender analysis to feed into strategies. In Guinea-Bissau, the findings of the Gender Profile have been considered in the preparation of the CSP 2015–2019 as part of the strategy's operational pillars, particularly the strategic pillar focusing on "economic empowerment". These Gender Profiles include a detailed assessment of gender indicators, policies, actions and institutional arrangements in each country. A review of these country Gender Profiles was undertaken to improve their quality and utility to the CSPs, and the resulting revised format is expected to have greater relevance and functionality for country strategies. In 2015, all our ● **new CSPs had a gender-informed design**, an increase over 89% in 2014. This means that results frameworks in our country strategies are increasingly designed to take into account differences in the impact of our support on women and men.

In response to the climate change effects that are hampering development in Africa, the Bank launched its first Climate Change Action Plan in 2011 with three main pillars: mitigation, adaptation and climate finance. Capacity development and policy and institutional reforms were identified as cross-cutting issues.

In 2015 a review of the implementation of our Climate Change Action Plan showed that the Bank has increased its contribution to climate-resilient and low-carbon development in Africa by leveraging finance for 258 projects spread across the Bank's core sectors — reducing

greenhouse gas emissions through clean energy and building adaptive capacity in the water and sanitation, agriculture and agro-industry sectors. We have committed almost \$7 billion to support climate-resilient and low-carbon development in Africa in the past four years, while effectively using the climate safeguard system. In 2015, we delivered 75% of ● **new projects with climate-informed design**, below our target of 95%. While 90% of new projects are climate-proofed in of our ADF countries, our average including middle income countries is below our target of 95%. This is due to lower coverage of our private sector operations. We are revisiting our integrated training programme in order to further assist operational teams, including the private sector through a step-by-step approach.

We have deepened our efforts to bring into the mainstream of the design and implementation of new projects, such climate change resilience aspects as improving community-level water resources management, watershed management and providing alternative water sources. For example, in Uganda we built resilience to climate change in flood-prone areas of Mount Elgon by rehabilitating 500 ha of degraded forest, planting 400 ha of indigenous flora along 250 km of river banks, and training local communities.

The Bank is now developing its next Action Plan, which will focus on delivering increased climate financing (see Box 13).

Looking forward

We are implementing a new business model that will expand the Bank's business by moving it closer to its clients. This will improve the way the Bank delivers its services and increase the health of the organisation, guaranteeing its long-term performance and providing meaningful development impact for regional member countries (see Box 14).

Over the past two years, AfDB has invested significant efforts in creating a higher sense of urgency for delivery, greater transparency, and accountability for performance. These efforts are starting to pay off: lending performance is stronger and portfolio performance has improved moderately.



We are implementing a new business model that will expand the Bank's business by moving it closer to its clients

Our CSPs and our project designs are rigorously scrutinised to ensure that they support our objectives and our quality standards, and that they are adequately supervised throughout implementation. The large majority of our new projects now have gender equality and climate change goals integrated into their design.

The Bank's active portfolio requires further attention, however. We aim to improve quality at entry of projects by undertaking in

Box 13 African Development Bank to triple annual climate financing to nearly \$5 billion by 2020

The Bank is working to almost triple its annual climate financing to reach \$5 billion a year — or 40% of its total new investments — by 2020.

Part of the \$5 billion will be dedicated to reducing Africa's greenhouse gas emissions by unlocking the continent's enormous potential for renewable energy: solar, hydro, wind and geothermal power. We will also work with our clients to improve energy efficiency and build sustainable transport systems.

The other portion of the \$5 billion will help African economies adapt to climate change through such measures as investing in climate-resilient crops, building sustainable infrastructure, and improving irrigation and access to water. To this end, the Bank will also integrate climate resilience into all of the infrastructure projects it finances.

Box 14 Towards a new way of doing business

Our proposed structural changes will be complemented by changes in human resources, budget incentives and related business processes.

The objective is to improve service delivery by increasing responsiveness and client orientation, and shortening the project cycle. Many processes will be reviewed to ensure they become more efficient and effective. Key actions to address process improvements will include:

- ▶ the Delegation of Authority will be revised further in light of the emerging organisational structure and business model of the Bank;
- ▶ the Bank is in the process of rolling out a new procurement policy to ensure increased country focus, accountability and to help reduce project delays;
- ▶ management is taking decisive actions to address delays in disbursements. In this regard, a new directive was issued in 2015 to help address disbursement challenges.

The business process improvements will be an ongoing exercise. We will continuously seek ways to speed up execution while maintaining high standards of quality at entry and of portfolio management.

advance the necessary preparatory work related to safeguards and procurement. Start-up delays, disbursement performance and timely completion reporting will be closely monitored at the country and division levels to speed up development impact and increase the Bank's revenue. In this regard, new internal directives provide a greater impetus for enhanced quality at entry and accelerated implementation and management of projects, focusing on results.

In the next chapter, we turn to the progress we are making in building our own capacity as a development organisation. ■