African Development Bank Group

Medium-Term Strategy 2008-2012

Building Today,
A Better Africa Tomorrow

African Development Bank Group

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Foreword

This Medium Term Strategy constitutes a road map for the Bank and its partners at a critical time for Africa. Its elaboration benefited from wide consultation and is consistent with the High Level Panel Report. It combines ambition and realism and clearly spells out deliverables. When work began to draw up this plan, the financial crisis was in its very early stages with its full economic ramifications slowly unfolding. The ADB and other multilateral development banks are called upon to play a bigger role, to do more, to innovate. I am determined that the African Development Bank meets this call. Our central challenge then is how to stay focused on core priorities while providing response to the new unfolding economic landscape.

This strategic framework provides the guidance and sets the direction. It is not a straight jacket and it enables us to respond to changing needs and circumstances. It seeks to give selectivity and complementarity a much clearer operational definition, charting a way on how to avoid strategic drift as new demands and needs arise.

Building on lessons drawn from earlier strategies, it sets out principles and priorities on the best way to maximize focus and effectiveness on our core areas; Infrastructure, Private Sector, Regional Integration and Governance while being complementary with other partners in the rest of the key domains. I am fully aware that the main obstacle will be that of delivery capacity and the resource base. We will overcome by steadily building that internal capacity and reform the business processes – a fulcrum of success for this plan. At the same time, we will continue to emphasize financial soundness, maintain our strong ratings while leveraging innovatively our balance sheet and drawing on our financial strength for the benefit of our member countries.

As we embark on this journey, I take the opportunity to thank the Board, Senior Management and Staff who were involved in this exercise. We will now focus fully on implementation.

Donald Kaberuka
President
African Development Bank Group

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Acronyms and Abbreviations

ADB	African Development Bank
ADF	African Development Fund
AU	African Union
CGSP	General Services and Procurement Department
CHRM	Human Resources Management Department
CIMM	Information Management and Methods Department
CLSU	Language Services Unit
COBS	Department of Corporate Strategy and Budget
COO	Chief Operating Officer
CPR	Country Portfolio Review
CSP	Country Strategy Paper
CSVP	Corporate Services Complex
DAC	Development Assistance Committee (OECD)
EC	European Commission
ECON	Chief Economist Complex
ESW	Economic and sector work
FDI	Foreign Direct Investment
FFCO	Financial Control Department
FFMA	Financial Management Department
FNVP	Finance Complex
FO	Field Offices
FTRY	Treasury Department
GDP	Gross domestic product
GNI	Gross National Income
HR	Human Resources
ICA	Infrastructure Consortium for Africa
ICT	Information and Communications Technology
IFAD	International Fund for Agricultural Development
IFI	International Financial Institutions
IWRM	Integrated Water Resources Management
KPIs	Key Performance Indicators
MDGs	Millennium Development Goals
MICs	Middle-income countries
MIGA	Multilateral Investment Guarantee Agency
MTS	Medium-Term Strategy 2008-2012
NEPAD	New Partnership for Africa's Development
NEPAD-IPPF	New Partnership for Africa's Development Infrastructure Project Preparation Facility

NGOs	Non-governmental organizations
OECD	Organization for Economic Co-operation and Development
OIVP	Infrastructure, Private Sector and Regional Integration Complex
ONRI	NEPAD, Regional Integration and Trade Department
OPSM	Private Sector Department
ORQR	Results and Quality Assurance Department
ORVP	Country & Regional Programs & Policy Complex
OSAN	Agriculture and Agro Industry Department
OSGE	Governance Department
OSUS	Gender, Climate and Sustainable Development Unit
OSVP	Sector Operations Complex
OWAS	Water and Sanitation Department
PCR	Project completion report
PECOF	Permanent Committee for Field Offices
PL	Professional Level Staff
PMG	Performance Monitoring Group
PRST	Presidency
PPP	Public-private partnership
RMCs	Regional member countries
RWSSI	Rural Water Supply and Sanitation Initiative
SMEs	Small and medium-sized enterprises
TRA	Temporary Relocation Agency
UA	Unit of account
URBD	Units Reporting to the Board of Directors
US$	United States Dollar

Executive Summary

This Medium Term Strategy for 2008-2012 builds upon and draws lessons from the Bank's previous multi-year Strategic Plan (for 2003-2007). Extensive consultations across the spectrum of shareholders and partners have revealed in particular a need for greater focus on results; more selectivity in areas of engagement and rigor in implementation; continued improvement in business processes and efficiency; intensified country dialogue; and, more systematic matching of resources with priorities.

The last decade has seen unprecedented growth in many African economies with promising reduction of poverty levels. Conditions for sustained growth have been broadly favourable until recently, as the global financial crisis has introduced new pressures and uncertainties. At a minimum, a sharply softer global economy characterized by more difficult credit conditions, coupled with a significantly changing international aid architecture, means sharper medium term challenges for the Bank and its Regional Member Country shareholders.

The Strategy aims to position the Bank effectively within a more volatile, uncertain and competitive environment, whilst remaining focussed on serving the primary needs of its African clients. The Bank has a unique position in Africa and must remain relevant to all its Regional Member Countries. To do so it must be more effective and equipped with appropriate instruments and resources.

An effective Strategy must therefore be a framework, not a blueprint. Within a clear set of priorities, the Bank must be able to respond to changing needs and circumstances. It should be judged by its results: the contribution it makes to development and the reduction of poverty, in particular by promoting equitable growth and economic integration, and through them, wider opportunities for Africa's poor. The aim remains to become the preferred partner in Africa, providing quality investment and advice.

To do this, the Bank will increase selectivity, with particular operational focus on infrastructure, governance, developing a more robust private sector, and higher education. Through investments in these areas, the Bank will contribute directly to regional integration, MIC and fragile states assistance, human development, and agriculture. Knowledge generation, climate change and gender will be mainstreamed in all the Bank Group's operations.

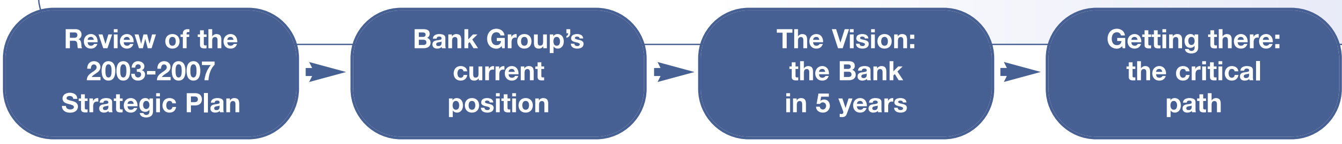
The Bank has built and will maintain a strong balance sheet and credit rating. It will use more fully the comparative advantages of its integrated structure, bringing together sovereign, non-sovereign, and concessional resources to meet the particular needs of individual RMCs. The Bank will also work more consistently in partnership with others to maximise development impact, and improve harmonisation, alignment and the use of country systems, as agreed in the Accra Agenda for Action.

There will be more focus on delivery and on development results, improving portfolio quality, and accelerating implementation. Changes in operational and human resource processes and budgeting will give Managers greater responsibilities but also hold them to account for results. Progress will be closely monitored and regularly reported.

Medium-Term Strategy 2008-2012

1 Introduction

1.1 This paper is organized as follows:



2 Review of the 2003-2007 Strategic Plan

2.1 The Bank's first Strategic Plan (2003-2007) was built around four core objectives:

- Support productivity growth and poverty reduction;
- Contribute to development results within the MDG framework;
- Forge stronger partnerships with multilateral, bilateral and regional agencies;
- Help bring the benefits of market access and economic diversification; improve long-term debt sustainability; and, build capacity.

STRATEGIC PRIORITIES

2.2 At the country level, strategic priorities were agriculture and rural development, water and sanitation, and human capital formation. Private sector development and governance were given secondary roles in support of sustainable economic development.

2.3 At the regional level, the Plan underlined the growing importance of regional economic integration and infrastructure development, under NEPAD's development agenda. The Bank Group was later assigned, through the NEPAD initiative, a lead role in infrastructure, financial and corporate governance.

2.4 Key cross–cutting issues were identified: Environmental sustainability was to be mainstreamed, and increased participation of women in agriculture, rural and micro-finance was to be sought.

2.5 Operational priorities: The strategy sought to optimize resource allocation through greater operational selectivity, maximize effectiveness through enhanced client focus, quality enhancement and development results, and build up the Bank's human, institutional and knowledge management resources. Stronger strategic alliances were to be built with civil society. High priority was given to maintaining the institution's financial soundness and integrity.

IMPLEMENTATION

2.6 Selectivity was established as a key objective at the country level. Operations in individual ADF countries were to be focussed on 2 to 3 priority sectors, while for ADB countries lending was to be restricted to operations aligned both with national strategies and the Bank's strategic priorities. Nevertheless, only limited selectivity was achieved in practice; lending was spread across many sectors, albeit with some concentration in infrastructure.

2.7 Agriculture and rural development accounted for just over 11% of Bank Group lending in 2003-2007. Water and sanitation lending grew 5-fold during this period, and accounted for 10% of lending. Several water-focussed initiatives were launched, and a dedicated Water and Sanitation Department was established in 2006 to improve coordination of sector activities.

2.8 Sovereign lending was given priority in the ADB window, with UA 2.5 B of such commitments over the period. Lower Initial levels, reflecting risk management concerns and the Banks reclaim of its AAA rating, became the foundation for more rapid growth, and by 2007 ADB lending was near UA 1.7 B.

2.9 The strategy gave relatively little emphasis to private sector operations, and early commitments reflected this. However, private sector transactions increased rapidly after the institutional reforms of 2006, to UA 1.0 B in 2007.

2.10 Support for multinational operations also grew substantially over the period. A total of 121 multi-national projects were approved, totalling UA 1.3 B; most were infrastructure projects, with the bulk in the transport sector. Regional integration was made a strategic priority in the 2005 update of the Strategic Plan.

2.11 Institutional Reforms: In the event, execution of the strategic plan was impeded by shortcomings in the Bank's structure and business processes. These included an insufficient field presence, country focus and client orientation; inadequate focus on delivery across the project cycle and clear results; capacity limitations, including for front line operational work; and, limited knowledge generation and dissemination.

2.12 Senior Management proposed, and in April 2006 the Board approved, major changes to the Bank's organizational structure, as well as reforms in human resource management, business processes, and the budget framework and administration. Three parallel Operations Complexes were created to enhance country focus, deepen sector expertise and improve project implementation: a Country and Regional Programs and Policy Complex to develop country strategies and work programs; and two Sector Operations Complexes to consolidate internal technical capacity and build greater professional depth in selected areas. Supporting organizational changes to better align the Bank's structure with its strategic priorities include the establishment of NEPAD, Regional Integration and Trade Department, and a Governance Department.

2.13 The need for more rapid and extensive decentralisation to improve the Bank's local knowledge and policy dialogue was a key element of the Plan. The Bank committed to increase the number of field offices from 4 in 2002 to 25 by the end of 2006. Progress was made to adapt the existing staffing template for field offices with a customized staffing profile. Despite these concrete steps forward, overall progress toward effective decentralization was below expectations and targets. Management energized the effort substantially during the course of 2007, including through more aggressive hiring of local professionals, stepped-up transfers of Tunis-based staff, identification of critical IT upgrades, and delegation of greater formal decision authority to the field.

2.14 The Plan proposed the development of quantifiable and measurable indicators. A Balanced Scorecard was developed; but in practice it proved overly complex and unwieldy and never served effectively as means to evaluate performance.

2.15 The Plan also stressed the imperative of enhanced supervision and quality at entry. The Bank Group made a significant investment in a SAP system to better track key operational data throughout the project cycle. However, the potential value of the system has been underexploited due in part to insufficient utilization at the staff level and insufficient oversight and priority at the Management level. It became clear that deeper and more comprehensive managerial and process change was needed.

2.16 While the ADF-10 agreement included adoption of a detailed results matrix, less progress than required was made toward effective implementation and mainstreaming into the Bank's operations. A review of results conducted under the ADF-11 process identified problems and needed improvements in some detail and proposed a new two-tiered results management framework to better measure both development effectiveness and institutional effectiveness. Key Performance Indicators that have subsequently been developed for all Complexes provide a substantially improved means to measure performance in the context of clearly articulated programs and objectives.

2.17 Human resource management was identified as critical to successful implementation. A specific goal was to reduce a vacancy rate of 18% in 2003 to below 5% by 2007. However, little progress was made in practice, and vacancy rates for professional staff were in the range of 20% by 2006. In the wake of the institutional reforms of 2006, a new human resource strategy adopted in May 2007, and sustained senior Management effort, the vacancy rate was cut to 7.4% (executive and professional level staff) in 2007.

2.18 Aligning strategy with budget: Recognizing that implementation of the Strategic

Plan had implications for administrative costs, the Board approved an increase of UA 51m in the administrative budget for the period 2005 to 2007. However, there was inadequate correlation between the budget and strategic planning, given that 61% of the budget (2006) was allocated to non-operation complexes, while operation complexes received 39%. The Institutional Reforms of 2006 are slowly reversing this trend. In 2007, the administrative budget allocation to operation complexes was 49%.

ASSESSMENT

2.19 While the underlying intent of the 2003-2007 Strategic Plan was sound, both its articulation and its execution were insufficiently focussed. In retrospect and in its application the Plan was not adequately selective. It included too many different sectors for individual countries, leading in some cases to a lack of alignment with core national-level priorities and insufficient concentration of the Bank's own skills and capacities. Portfolio quality improvement was not sufficient; portfolio management requires substantial strengthening at both country and sector levels; disbursement rates still lag behind programmed levels and those of comparator organizations; and, non-financial transactions costs are still too high. Knowledge generation and advice has developed more slowly than expected. The Reports of the ADF-11 Deputies and the High Level Panel both confirm this general assessment, recommend greater selectivity, a focus on growth and regional integration, infrastructure, governance, skills and capacity building and private sector development. More emphasis is now given to addressing the needs of fragile states. This second plan is therefore intended to draw on the lessons of the first and build on the foundations laid.

3. Bank Group's Current Position

AFRICAN DEVELOPMENT PERFORMANCE

3.1 By many measures, Africa's development prospects have improved substantially. Sustained and faster growth has been driven by macroeconomic reforms, including stronger public finances, and a consequent improvement in the investment climate. Over the past five years, Africa has benefited also from a favourable global economy, debt relief and high demand for primary commodities.

Progress	
- Sustained growth	- Improving political context
- Greater financial market access	- Better investment climate
- Keen donor interest	- Capable new partners

3.2 Yet poverty remains pervasive, human development indicators remain among the lowest in the world and progress toward the MDGs has been insufficient. Far too many people have far too few opportunities to build healthier and more prosperous lives, and the benefits of growth remain beyond the reach of many.

3.3 Africa faces many challenges including inadequate participation in global trade and investment flows; food insecurity; small, fragmented economies characterized by low productivity due in part to poor infrastructure; weak governance institutions; a relatively high number of fragile and post-conflict states; persistent disease; and climate change. The global financial crisis has introduced new pressures and uncertainties. Slower global economic growth, more difficult credit conditions, and changes in the international aid architecture pose additional challenges to the continent. At the same time, if these challenges can be overcome globalization presents Africa with unprecedented opportunities to grow and modernize. In this context, the needs of the Bank's clients are changing.

Core Challenges	
- Pervasive poverty	- Limited regional integration
- Low productivity and competitiveness	- Diminishing global trade share
- Low savings and investment	- Constrained financial flows
- Lack of diversification	

WHAT OUR CLIENTS WANT

3.4 The Bank assists both sovereign and non-sovereign clients, which have different needs and expectations in terms of services and products.

3.5 Against the background of generally strong growth, levels of economic and social development at country level remain divergent. As a result, sovereign client needs are very different:

- **Middle-income countries (MICs)** have made progress but have to be able to compete in a global market place, increasingly without protection from trade preferences. To do so they want to enhance economic competitiveness, increase productivity notably by improving infrastructure, their knowledge base and human capital. At the same time MICs want to continue to fight pockets of exclusion and poverty and increase access to services and products better tailored to their needs.
- **Low-income countries** are becoming increasingly diverse; some are making good progress and aspiring to MIC status, while others are advancing more slowly. Some are benefiting from high commodity prices and will want to use revenues to upgrade their infrastructure and extend basic services. The low-income countries need to invest significantly to improve the competitiveness and diversification of their economies to better withstand external shocks. They also need to improve the investment climate, promote private sector development and build institutional capacity while dealing with the challenges of disease and climate change. High food prices present both an immediate threat which needs to be addressed with urgency, and a long-term opportunity to boost agricultural production and revenues in many countries where it plays a prominent role in the overall economy.
- **Post-conflict and fragile states** need special attention and dedicated resources. They seek progress on stabilization and macroeconomic reforms, paving the way for debt relief, reengagement with the international donor community, and a return to growth. They need significant and sustained assistance to rebuild core institutions and rehabilitate vital services and basic infrastructure.

3.6 The Bank also serves private sector and non-sovereign clients through several different channels:

- Advice – Expert advice, including to government or regulatory entities with interests in specific transactions.

- Finance – Funding for specific transactions on competitive terms, and delivered with minimum delays. Demand for equity and quasi-equity investments is growing.
- Risk mitigation – Boosting investor confidence that their interests are adequately protected from political interference and that governments respect their contractual obligations.
- Catalytic Role – Facilitating creative public-private partnerships in the growing "sweet spot" between traditional public and private domains.

FINANCING CONTEXT: DEVELOPMENT FINANCE TRENDS

3.7 The international community is giving Africa more concerted attention: traditional donors have promised a major increase in aid; new donors are emerging; and, private investors, though still focused primarily on natural resources, are increasingly considering opportunities in Africa. Meanwhile, remittances have grown significantly, and capital markets have shown greater appetite for African debt. However, the still-unfolding global financial crisis poses a threat to these positive developments.

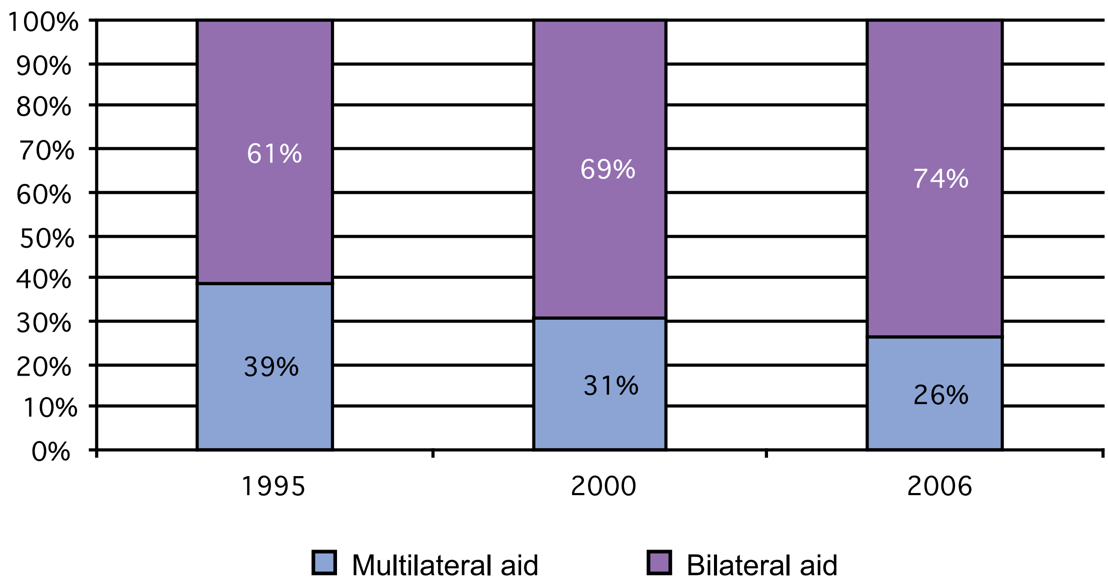
3.8 Growth in aid to Africa is coming mostly from bilateral sources, but much is in the form of emergency or humanitarian aid, or debt relief. There has been little real growth in the resources made directly available for investment in capacity building, basic infrastructure or services. Multilateral aid has decreased as a percentage of overall aid over the last 10 years, from more than one third in the mid-1990s to about one quarter currently.

3.9 There has been a marked increase in the number and variety of donors – public bilateral, multilateral and private. Greater bilateral funding and investment is coming from non-traditional donors from the Middle East and developing countries such as China, India and Brazil. Large amounts of financing from such new sources have been directed to resource-rich countries aiming in particular at developing their resource exploitation and trade. This financing is often provided with fewer conditions. New multilateral donors have also appeared, predominantly highly focused vertical funds targeting specific issues such as health and environment.

3.10 At the same time, development finance has become more fragmented, characterized by a higher number of independent operations of relatively small size. In many cases, aid is being delivered through less flexible instruments such as technical assistance, emergency relief or in tied forms that give countries little say in its use.

3.11 Private foundations have also gained in influence and importance while a plethora of NGOs remain active across the full range of sectors.

Share Multilateral – Bilateral Aid since 1995



Source: DAC/OECD

3.12 The overall composition of development assistance to Africa has also changed significantly over the past two decades. Between the mid-1980s and 2006 support for human development grew from just over 5% of the total to about 20%. Over the same period, support for infrastructure was reduced by about half in percentage terms, from about 23% of the total to about 13%.

3.13 There has been a huge increase globally in foreign investment, but very little of it has gone to Africa outside of the resource rich economies, and very specific sectors. Nonetheless it is encouraging that in 2006 and 2007 annual foreign direct investment (FDI) flows to Africa surged to an historic level of US$36 billion, up from US$31 billion in 2005 and US$17 billion in 2004. It remains to be seen whether this trend continues, especially in view of global credit conditions; moreover, distribution of flows remains extremely uneven across countries. Nonetheless the greater presence and level of interest of the FDI community in Africa is a major and important opportunity.

3.14 The rise in oil prices has hit low income oil importing countries; in some cases the increase in the annual cost of oil between 2002 and 2006 is more than double the projected savings from debt relief. In addition rising food prices will impact on poorer countries and communities. Africa's oil producers, on the other hand, have benefited significantly and many producers of commodities have seen substantially higher earnings on the back of tighter global supply/demand conditions; for Africa as a whole, terms of trade have improved by an average of 6.8% per year between 2002 and 2007.

3.15 The last two decades have seen a significant shift in developed and developing countries alike towards more private sector provision and financing of infrastructure, but least in Africa. The limited scale of investment reflects the often small profit margins when set against long-term political risk and regulatory instability concerns. Mitigation instruments developed by bodies such as MIGA have helped, but have not brought about wholesale change in the levels of private investment.

3.16 Emerging countries have turned more and more to commercial sources to finance their growth, ready to borrow at a higher rate in exchange for no conditionality and quick processing times. But current turbulent market conditions and the wider global experience to date underline the volatility of these flows and the continuing need in many cases for a multilateral presence.

3.17 These trends have implications for beneficiaries and donors. More aid channels and increasingly fragmented instruments have put pressure on recipients to effectively manage aid. This task has proven particularly difficult for poor countries with weak institutional capacity and has generally increased transaction costs for beneficiaries and donors. Consistent with the Paris Declaration on Aid Effectiveness donors are under pressure to be increasingly selective in their interventions and to improve their own coordination, alignment and harmonization. Multilaterals too are under greater scrutiny, and must demonstrate that they can deliver more effectively and show convincing results.

THE BANK GROUP IN THE DEVELOPMENT FRAMEWORK

3.18 The Bank requires greater strategic focus and selectivity…

- Currently across most of the development banking value chain, the Bank is stretched relatively thin at a time when many players are becoming more specialized; it has yet to develop a fully satisfactory body of development results at a time when shareholders' expectations have risen and choices have expanded; and, it compares unfavourably with some other players in terms of transactions costs, responsiveness and presence.
- The Bank Group is small relative to the scale and scope of the development challenge in Africa. The ADB window is dwarfed by commercial flows; the ADF is only the seventh largest provider of aid to Africa and has consistently accounted for only about 3-4% of total aid. Bilateral donors are able to focus more on selected countries and sectors; for instance they provide some 70% of all aid to Africa for health and education, an area where the Bank is a marginal financier.

Simplified value chain

Provision of general knowledge	Strategic advice	Financial instruments design	Solutions design	Project packaging	Funding	Project management
• Statistics • Research • Capacity Building	• Country strategies • Technical assistance • Sector analysis	• New lending/risk instruments	• Support to project design	• Financial packaging • Syndication	• Provision of funds	• Procurement • Project supervision • M&E

3.19 …built on evident strengths and unique assets:

- The Bank enjoys a unique position in Africa and the development community. Its structure provides RMCs with a valued voice, and its elected African president and predominantly African staff confers legitimacy and an ability to play the "honest broker" role. As a major Pan-African organization, the Bank is well positioned to build effective, credible partnerships with both African and non-African institutions.
- Recognized for its relatively strong performance in specific areas, the Bank has been entrusted with leadership on key continental initiatives: implementing AU/NEPAD programs in infrastructure, regional integration, and economic governance; hosting the Infrastructure Consortium for Africa, the African Water Facility, and the African Fertilizer Financing Mechanism; acting as trustee for the NEPAD-IPPF. These roles position it well to influence and leverage additional resources for Africa.
- The Bank's private sector investment tripled in 2007. A strong pipeline of projects and increasing demands for Bank Group participation, including through innovative public-private partnerships, presents significant opportunities for growth, synergy and catalytic impact.
- The Bank has the advantage of having its sovereign, non-sovereign and private sector lending instruments integrated under one roof, in principle providing a greater ability to tailor engagement to country needs.
- The Bank is now better organized for stronger country focus and greater sector depth, and improved synergy between them. New departments provide concentrated focus and capacity in priority areas such as governance, regional integration, and results and quality assurance.
- The Bank has strengthened its managerial and staff capacity. A major and successful recruitment campaign has attracted a significant number of new managers and professionals, primarily in operations and direct operations support to significantly expand capacity to deliver programs. A revamped and expanded program for young professionals was launched successfully in 2007.
- As a result of prudent policies and management over the past decade, the Bank enjoys a strong balance sheet and conservative risk exposure. Management and the Board are currently examining how such financial strength could be even better leveraged to provide increased and effective development assistance to the regional member countries, including greater support to MICs and the private sector, without compromising the AAA rating. Such examination has included independent reviews of the capital adequacy framework and debt ratios of the Bank by two highly reputable private sector international financial institutions and consultations with peer institutions. It is expected that the resulting revision of risk capital charges, computed using Basel II international best practice standards, will provide significantly increased lending headroom. Preliminary indications from the rating agencies are that the proposed frameworks are reasonable and, appropriately applied, should not threaten the Bank's rating.

3.20 The Bank faces challenges…

- The Bank operates in an increasingly crowded field. Africa is attracting new commercial and public financiers, including specialized dedicated funds and foundations. The Bank must better demonstrate where it adds value. It has not yet developed a strong brand in research and knowledge.
- The Bank's ongoing reforms have generated momentum but must go further in order to increase the impact of its work.
- The Bank needs better to identify its role in and prospective contribution to Africa's MICs. Many have improved access to the global capital markets at competitive rates, and their demand for loans from IFIs has fallen. Many are also adopting more active debt management strategies and prepaying old, more expensive loans. Nonetheless, MICs are an important constituent with substantial remaining development challenges. They are looking to the Bank for continued engagement in selected areas, and putting a premium on capacity building, creative public-private partnerships, and competitive pricing.

3.21 …and opportunities to seize

- The Bank is positioned to enhance its focus/growth in infrastructure lending and regional projects. Financing for infrastructure has declined significantly, particularly from bilateral donors, even as country demand has increased. The Bank should fill this gap.
- The Bank Group can also build on its integrated structure as a source of advantage: it is well placed to build synergies across public/private sectors and foster Public-Private Partnerships (PPPs). There are also vital and underdeveloped synergies between the Bank's core focus and critical other areas such as the agriculture and social sectors.
- The Bank has untapped opportunities to use its financial strength to leverage external capital flows by developing risk mitigation solutions as well as to engage in pro-active resource mobilization through syndication.
- Reinvigorated partnerships with other actors, particularly the EC and World Bank, offer opportunities to increase development effectiveness for clients.
- The substantial ADF-11 replenishment allows the Bank to expand its lending, including for regional projects that support integration and enhanced support to fragile states. Strong delivery on ADF-11 commitments is essential to position the Bank effectively for further increases under ADF-12.

4. The Bank Group in 5 Years

VISION

4.1 By 2012, the Bank Group will be recognized globally, and by its shareholders in particular, as a preferred partner in Africa, providing high-impact, well-focused development assistance and solutions.

CORE COMMITMENTS

4.2 To implement this vision the Bank Group will:

① focus on poverty reduction, primarily by supporting the drivers of stronger and more equitable growth, opportunity and economic integration;

② deliver clearly identified and demonstrably superior results across the full range of its activities, and in the full range of its RMCs;

③ focus more selectively on infrastructure, governance, private sector operations, higher education and technology and vocational training;

④ in this context, increase engagement in and support for regional integration and fragile states, especially in post-conflict circumstances;

⑤ mainstream gender, climate change and knowledge management more fully and effectively in its operations;

⑥ contribute materially to broader human development objectives and the MDGs, notably through the water and sanitation sector;

⑦ build creative new partnerships, particularly with the private sector, to better leverage existing strengths and extend effective reach and impact;

⑧ become an effective and respected voice for and within Africa, including by providing high-quality knowledge products and analytical services;

⑨ improve responsiveness to and engagement in client countries, including through effective decentralization and reduced transactions costs.

IMPLICATIONS FOR THE BANK'S FOCUS

Stronger Sectoral Emphasis on…	Special Applicability to…	And Better Integrating…
• Infrastructure • Governance • Private Sector • Higher Education	• Regional Integration • Fragile States • MICs • Agriculture	• Gender • Environment • Climate Change • Knowledge Management

STRONGER SECTORAL EMPHASIS…

4.3 Greater selectivity and focus at sector levels is required to leverage the Banks' limited resources more effectively, produce demonstrably superior results, and earn a position of acknowledged leadership at the country level and within the donor partnership. A more selective operational focus will be set out in the Bank's annual operational programmes and in individual Country Strategy Papers for ADF, ADB and Blend borrowers.

4.4 The Bank's selective operational focus will be along the following lines:

- **Infrastructure** – The Bank will direct a significant proportion of its new commitments to infrastructure investments, especially for transport, power, and ICT. It will seek actively to ensure demonstrable public benefit by improving growth, productivity, employment and access to market opportunities and essential services, particularly where required to accelerate progress toward the MDGs. The Bank will exercise leadership in the continental initiatives (NEPAD, ICA).
  The Bank will also continue to focus on accelerating access to improved rural water and sanitation services while addressing the needs of Africa's growing peri-urban and urban populations. The RWSSI will provide the vehicle for scaling up rural water and sanitation delivery during the MTS period. The Bank will strengthen partnerships to improve, water, sanitation and hygiene delivery and water security in RMCs; it will support RMCs to mainstream Integrated Water Resources Management in sector programmes and step up support to strengthen sector monitoring and evaluation in RMCs.
- **Governance** – The Bank will deepen its operational work to strengthen governance in key areas linked directly to its core operational priorities. It will focus on strengthening transparency and accountability in the management of public resources, at the country, sector and regional levels, with special attention to fragile states and natural resources management. The choice and mix of instruments will be tailored to country circumstances, combining budget support, institution strengthening projects, non-lending operations, and analytical and advisory work.
- **Private Sector Development** – The Bank's updated Private Sector Strategy sets out specific commitments for its work going forward. Private sector transactions will be further scaled up in the context of agreed country strategies. The Bank will effectively seek to utilize its integrated structure by having sovereign, sub-sovereign and non-sovereign instruments at its disposal, including concessionary resources under ADF, to promote private sector led growth. It will strengthen the articulation of the "development case" and expected results for specific transactions and will develop a model to ensure appropriate assessment of development impact. Operational focus will be on infrastructure, industry and services, financial intermediation and microfinance/SMEs.
- **Higher Education, Technology and Vocational Training** – The Bank will invest to upgrade and rehabilitate existing facilities including national and regional centres of excellence to provide quality tertiary level training to improve the conditions for scientific and technological innovations. It will develop partnerships with the private sector to design and

implement projects to sustain economic and social growth in the RMCs. The Bank will support technical and vocational education and training operations to build skills to address chronic high unemployment.

4.5 This operational focus will position the Bank to contribute selectively to broader development objectives. More specifically:

- **Agricultural** development and productivity, and food security, remain critical for Africa. The recent increase in food prices provides a window of opportunity to reduce poverty for the majority of Africans engaged in agriculture as a primary economic activity. The Bank will make a focused contribution to complement the actions of other players. In the short-run, it will address immediate needs through selective support and a realignment of its agriculture portfolio to boost productivity. In the longer-term, building on its core operational focus, the Bank will help countries leverage higher agriculture prices to boost growth through sustainable water management, irrigation, rural roads, marketing and storage infrastructure, and promoting agro-industry development. The findings of the joint ADB/IFAD evaluation will further inform Bank policies and programs in this sector.

Preliminary Conclusions of the Bank IFAD Review of Agriculture

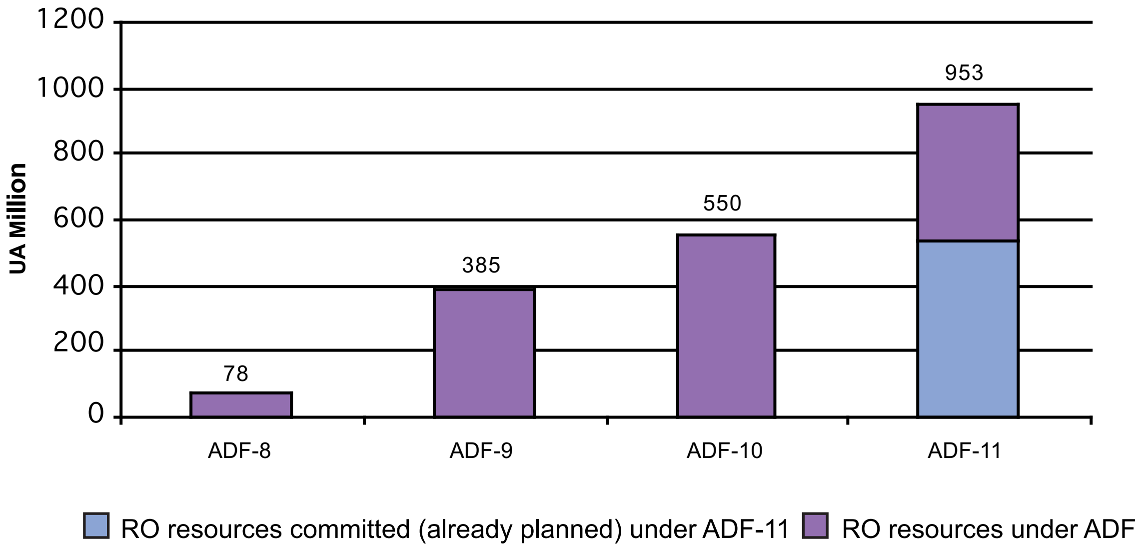
- Projects which included irrigation and rural infrastructure development and crop production were found to be the best performing
- Greater attention to the needs of the poor, increased cross-sectoral work, especially with the infrastructure and water sectors, greater attention to gender and much more comprehensive risk and economic analysis will be key drivers to successful project implementation
- Greater selectivity and focus in the agriculture sub sectors will provide greater country level effectiveness

- **Sustained Progress on Health-related MDGs** will be impossible without adequate investment. The Bank intends to remain directly engaged in the social sectors by managing more effectively its existing portfolio and providing selective support in coordination with other partners. The Bank will play a catalytic role in supporting RMCs to better access and utilise resources from existing vertical funds. Moreover, the Bank will better exploit opportunities to link human development objectives with core operations in infrastructure, such as water and sanitation, increasing access to energy and power.

…WITH PARTICULAR APPLICATION TO…

- **Regional Integration**: Deeper regional integration within Africa is imperative to build markets and new opportunities for growth, job creation and improved living standards; to create more robust, competitive and diversified economies; and, to attract and reward new sources of investment finance. The Bank's members have identified regional integration as a key strategic objective for the institution, and have set aside increasing amounts of ADF resources to finance operations for this purpose. Going forward, the Bank will focus on deepening cross-border economic, commercial and policy linkages, including between ADF and ADB countries. Beyond project finance, which will concentrate on investments in cross-border infrastructure and selective support to regional public goods, the Bank will provide assistance and advisory services, including work with the AU to increase the effectiveness and relevance of the network of regional and sub-regional economic communities and bodies. The Bank's new Framework for Regional Operations provides the basis for significantly expanded support, utilizing a pool of specifically earmarked ADF resources and clear guidelines to ensure selectivity, ownership and impact. Based on the current pipeline, approximately 83% of the earmarked resources will have been committed by end 2009.

ADF resources allocated to Regional Operations (RO)



Source: ORVP

- **Fragile States**: The emergence of numerous RMCs from periods of conflict and decline makes a compelling case for renewed and deeper Bank engagement. The Bank will particularly assist countries in post-crisis and post-conflict transition to move forward towards more stable political and economic development. It will work together with others, including through co-financing. The Bank's new Fragile States Facility sets out a comprehensive operational and financial framework, focussing on providing supplemental funding for priority investments, arrears clearance, and targeted capacity-building support. The framework also establishes a clear performance assessment mechanism and is supported by the creation of a new, dedicated Fragile States Unit.
- **Deeper Engagement in the MICs**: Operational challenges in middle income members have grown, but so have opportunities. Major investment, development and regional integration needs still exist, but access to finance on attractive terms from both established and new sources has grown significantly. National level capacity is stronger and national priorities more sharply defined, but there is large unmet demand for more tailored support and analytical and advisory work. The Bank will respond more effectively to these realities. Under its new MIC strategy, the Bank will build more effective linkages between sovereign and non-sovereign operations, develop more competitive lending products, and bundle them more systematically with high-value knowledge and advisory services. It will provide competitive loan pricing and improved product marketing; expand well-targeted non-sovereign operations, principally through private sector investments; leverage the Bank's balance sheet more effectively; and, expand regional integration operations where possible. An internal Working Group has made preliminary recommendations on the Bank's engagement, products and services in the MICs; summarized in

Annex III these will be subject to further discussion between Management and shareholders.

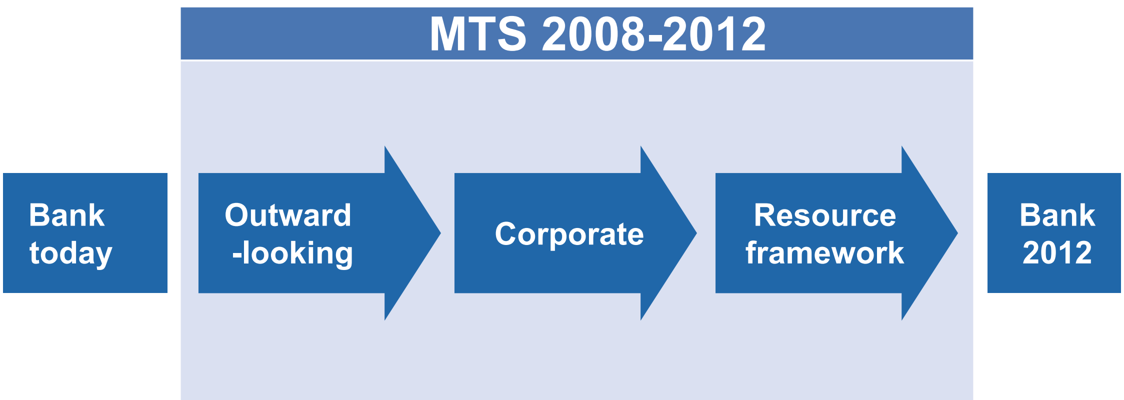
BETTER INTEGRATING KEY CROSSCUTTING THEMES

4.6 The Bank will substantially better mainstream key crosscutting themes in all its operational work.

- **Gender**: The Bank must make a greater contribution to gender opportunity and equity as a basic guiding principle for all of its operations. It will intensify its mainstreaming of gender issues into the full range of its operational work, including through more effective implementation of the Gender Action Plan. Specific gender guidelines for operational work will be designed, and disseminated to all operations staff, with appropriate training provided. The newly created OSUS unit is expected to make clear commitments and key contributions to raising the profile of gender issues and their integration into operational planning and design. Gender issues will be more fully embedded across the organization through adoption of global best practises, and improved incentives and recognition.
- **Environment and Climate Change**: The Bank will continue to apply its Environmental Safeguards Policy and use its Environmental and Social Impact Assessment (ESIA) tools to mitigate potential negative environmental impact from Bank investments. Effective engagement at key points in the project cycle by the newly created OSUS and ORQR, and active upstream quality and compliance assurance by project task teams and management will be critical to meeting the Bank's obligations. The Bank will invest in its capacity to address the climate change challenge in Africa, primarily through work on the special challenges of adaptation and climate-proofing. It will focus on selective partnerships in the area of climate change and will use a convening role to identify regional opportunities, solutions and co-operation. An internal Working Group has developed a set of specific commitments to be implemented over the next 18 months, including identifying specific clean energy investments; the environment and climate change strategy will then be reassessed on the basis of experience.

5. Getting There: the Critical Path

5.1 To achieve its vision by 2012, the Bank Group will pursue selected and critical priorities, building further on major reforms already underway, with particular emphasis on execution, results, delivery, and selectivity.



OUTWARD-LOOKING BUILDING BLOCKS

Partnerships

5.2 The Bank will build more effective partnerships based on clearer and more specific agreements to deliver well-articulated results. It will continue with its comprehensive review of existing Memoranda of Understanding with external partners, and actively explore selected "priority partnerships" with selected specialized organizations as well as key emerging donors and research institutions. The Bank will better use its field presence to leverage partners' specialized assets.

5.3 The Bank will also deepen and extend its implementation of the Paris Declaration. It's endorsement of the Accra Agenda for Action brings with it higher standards and expectations with respect to harmonization, greater reliance on country systems, more joint operations (co-financing), joint missions, joint analytical work, and a reduction in the number of project implementation units. Delivering on the objectives of Paris and Accra will require active management and clear targets across the organization.

Knowledge

5.4 The Bank will enhance its knowledge services, a necessary and still under-served complement to its lending activities. The recently approved Knowledge Management Strategy will be institutionalised across the Bank so that knowledge is produced and used to improve the quality and effectiveness of operations. Work will be intensified to integrate lessons from policy relevant research, develop networks of African think tanks and research institutes, actively disseminate and more effectively share information, provide timely and relevant advice to clients, and selectively build capacity in RMCs. The Bank will aim to become the acknowledged leader in statistics on African development, and a first choice for knowledge on African economic and social developments.

Decentralization

5.5 The Bank will decentralize further to enhance its delivery of products and services. Substantial progress has been made toward delivering on commitments under the present strategy, including with respect to opening new offices, posting of staff, and formal devolution of authority. Going forward, efforts will be intensified to ensure fully effective integration of field with central offices, further tailor staffing to meet country specific circumstances, and ensure that lead responsibility for key tasks is transferred to field-based officers. Strengthened coordination between central offices and the Bank's growing field network cannot be accomplished without a significant upgrade of the IT and communication infrastructure, expected to be largely completed this year. Management provided preliminary evaluations of progress under decentralization in 2008, and will deliver an independent evaluation in 2009. An internal Working Group made preliminary recommendations, attached at Annex III, which will receive further review and discussion.

Focus on Development Results

5.6 The Bank has embarked on an ambitious medium-term agenda to enhance quality and strengthen the focus on development results in its strategies, operations and information systems. Reforms in five key areas will aim at:

- Improving quality at entry in strategies and operations by strengthening analytic work and CSP results frameworks and by better articulating logical frameworks and building monitoring and evaluation systems in operations, Efforts will also focus on systematically providing baseline data in operations and developing standard outcome and output indicators in selected sectors;
- Instilling a results-focused supervision culture by shifting to continuous supervision and implementation support in the field, adopting results-oriented supervision reporting systems and strengthening the mid-term review process to facilitate restructuring for better results;
- Enhancing learning and accountability through evaluation by ensuring timely preparation of results-oriented completion reports, and stronger feedback loops from lessons learned to new operations and strategies;
- Improving data and systems for results reporting. The Bank's current portfolio management systems need to be substantially upgraded to include progress reporting on outputs and outcomes of country and sector strategies and of country and regional operations. Integration of results reporting in flagship publications will also be necessary;
- Accelerating decentralization for better results on the ground. The Bank will

strengthen its presence in the field and promote field-based decision-making and accountability for portfolio management. Field offices will take the lead in promoting harmonization and alignment through country-focused, collective action.

Implementing the quality and results agenda must be a Bank-wide effort, with staff and Managers across the organization fully engaged and accountable. The newly-established Quality Assurance and Results Department will coordinate implementation across the institution and report on progress towards better results to the Bank's shareholders, clients and ADF Deputies.

5.7 A strengthened system of independent evaluation will also be required to contribute to increased quality and relevance of the Bank's policies and operations, by providing evidence of their relevance, efficiency and effectiveness, as well as their sustainability and long-term impact. Independent evaluation also makes a major contribution to the public accountability of the Bank Group. The Bank will increase the volume and quality of its independent evaluations, strengthen mechanisms to absorb evaluation lessons and recommendations internally, and communicate lessons more effectively to Bank's partners and stakeholders across the region. Evaluation will also promote learning and accountability through benchmarking and systematic comparisons with other agencies, taking due account of operational contexts. The Bank will maintain its policy of full disclosure of evaluation results; publication of such results is an important tool for both public education and institutional accountability.

5.8 Development Results Reporting: In the context of the ADF replenishment cycle, the Bank has adopted a results measurement framework which will be applied across the Bank for the purposes of reporting on results during implementation of the medium-term strategy. The results measurement framework will look across both ADF and ADB-eligible countries to provide: i) a review of countries' progress towards key development outcomes; ii) an assessment of the Bank's contribution to these outcomes through its operations; and iii) an analysis of the Bank's performance in delivering support, as measured through key performance indicators. Countries' progress will be assessed relative to a baseline for a summary set of development outcomes as indicated in the table below. The Bank's contribution to these outcomes will be examined in terms of the outputs and outcomes of Bank operations. Regular reporting on this will depend on progress in improving the quality of project logframes, defining standard output and outcome indicators in key sectors, building reporting on these indicators into Bank information systems and ensuring comprehensive completion reporting with a focus on evaluating outputs and outcomes. Reporting on these first two aspects of the results measurement framework will be done for the mid-term review of the medium-term strategy. The lowest level of the results measurement framework focuses not on results, but on the Bank's corporate performance, as assessed through a set of key performance indicators (discussed in paragraph 5.9 below) which can be reported more frequently.

Development Effectiveness – Country Outcome Indicators	Baseline year	Baseline value ADF countries	Baseline value ADB countries
Growth and Poverty Reduction			
GDP per capita (US$ constant 2000)	2006	358	2,484
Population living below $1/day (PPP) (%)	2004	33	8
Governance and Transparency			
Public Expenditure & Financial Assessment Score (1 to 7)	2007	3.12	3.54
Worldwide Governance Indicators Average Score (-2.5 to 2.5)	2006	-0.80	-0.18
Extractive Industries Transparency Index (% implementation)	2007	39	14
Regional Integration and Trade			
Share of global trade (%)	2006	1.07	1.16
Countries' trade with Africa (% of total countries' trade)	2006	14	6
Private Sector Development and Investment Climate			
Cost required for business start-up (% of GNI per capita)	2006	190	25
Time required for business start-up (days)	2006	58	49
Global Competitiveness Index Ranking (1 to 7)	2007	3.1	4.1
Staple Crops Yield Index (2002 value = 100)	2005	115	109

Development Effectiveness – Country Outcome Indicators	Baseline year	Baseline value ADF countries	Baseline value ADB countries
Economic Infrastructure			
Access to improved water source (% of population)	2004	55	92
Access to an all-season road (% of rural population)	n/a	n/a	n/a
Household electrification rate (% of households)	2001	22	n/a
Fixed lines & mobile phone subscribers (per 1,000)	2005	69	514
Internet users (per 1,000)	2005	20	85
Human Development			
Under-five child mortality (per 1,000 live births)	2006	165	44
Ratio of girls to boys in primary and secondary school (%)	2004	85	96
Primary school completion rate (%)	2004	58	93

CORPORATE FUNDAMENTALS

Corporate Performance Monitoring

5.9 In order to build and systematically reinforce a culture of institutional performance and delivery, Key Performance Indicators will be adopted for Sector and Regional Departments. The KPIs will reinforce the centrality of portfolio management, leading to greater accountability for effective delivery at every level. Systematic monitoring and reporting of KPIs will cascade through institutional, complex, department and division levels. Staff performance evaluations will be adapted to reflect associated KPIs. Monitoring of KPIs will form the basis for quarterly and annual reports. For monitoring of overall institutional performance, the KPIs are listed in the table below. They overlap significantly – but not entirely – with the institutional effectiveness indicators included in the ADF-11 results measurement framework, which are geared specifically to ADF Deputies' reporting concerns rather than for use as a quarterly management tool.

Corporate Key Performance Indicators	Baseline Date/Period	Target Date/ Period	Baseline value	Target value
Bank Group Financing				
ADB Public Lending (UA billions)	2003-2007	2008-2012	4.6	7.1
ADB Private Lending (UA billions)	2003-2007	2008-2012	2.6	5.1
ADF Financing (UA billions)	2003-2007	2008-2012	7	10.5
Knowledge Management Products				
CSPs and Related Documents (#)	2003-2007	2008-2012	192	135
CPRs (#)	2003-2007	2008-2012	45	85
ESWs and Related Papers (#)	2007	2012	81	85
Disbursements				
Bank Group Disbursement Amount				
ADB Public Amount (UA millions)	2003-2007	2008-2012	2833	3310
ADB Private Amount (UA millions)	2003-2007	2008-2012	479	3910
ADF Amount (UA millions)	2003-2007	2008-2012	3149	5740
Bank Group Disbursement Ratio (Investment only)				
ADB Public Disbursement Ratio (%)	12/2007	2012	19	25
ADB Private Disbursement Ratio (%)	12/2007	2012	40	50
ADF Disbursement Ratio (%)	12/2007	2012	16	25
Portfolio Management				
Problematic Projects (%)	12/2007	12/2012	9	7
Operations Supervised Twice a Year (%)	12/2007	12/2012	30	75
Projects Managed by Field Offices (%)	12/2007	12/2012	0	35
Impaired Loan Ratio (Non-Sovereign only) (%)	03/2008	12/2012	4.39	<5
Process Efficiency				
Lapse of time between approval and first disbursement (m)	12/2007	12/2012	21.3	8
Lapse of Time for Procurement (w)	12/2007	12/2012	68	35
Timely PCR Coverage (%)	12/2007	12/2012	25	75

Corporate Key Performance Indicators	Baseline Date/Period	Target Date/ Period	Baseline value	Target value
Cross-cutting Areas				
Gender Mainstreaming in Operations (%)	12/2007	12/2012	0	45
Climate Proofing of Investment Projects (%)	12/2007	12/2012	0	12
Human Resources PL				
Field Based (%)	2008	12/2012	27	31
Gender Balance (%)	12/2007	12/2012	23	34
Staff Age Diversity (%)	12/2007	12/2012	38	45
Staff Attrition Rate (%)	12/2007	12/2012	21	10
Budget and Expenses				
Administrative Budget Implementation (%)	12/2007	12/2012	89	95
Field Offices Expenses (%)	12/2007	12/2012	9	20
Operations Expenses (%)	12/2007	12/2012	50	65
Staff Fixed Costs (%)	12/2007	12/2012	71	71
Capital Budget Implementation (%)	12/2007	12/2012	78	90

Structure

5.10 In order to improve coherence and coordination, embed teamwork across complexes, ensure strategic priorities are reflected in resources allocation, better monitoring and management of performance, and strengthen the focus on results, the Bank's structure has been revised with establishment of a position of Chief Operating Officer (COO).

5.11 The Bank Group will integrate Strategic Planning, Programming, Budgeting and Performance Monitoring through its newly created Department of Corporate Strategy and Budget (COBS). COBS is expected to deliver multiple benefits, including a better implementation of administrative and capital budgets with more timely and analytical business reporting, a more systematic benchmarking of the Bank's performance, a greater decentralization of programming and budgeting and a higher level of accountability of managers. The allocation of resources will be aligned with strategy and linked to performance, and improved reporting tools will be developed. COBS will implement the full transition to UA budgeting as of January 2010, decentralizing resources management to business units in the Bank. Managers will be given authority and held accountable for resources management. COBS will, together with CHRM, exercise strategic oversight and assessment of the business units' performances and staff management. The Bank will also integrate Quality Assurance, Results Reporting and Safeguards Compliance into a newly created department of Quality Assurance and Results (ORQR). The ORQR will coordinate Bank-wide implementation of reforms and promote culture change aimed at improving quality at entry, monitoring of progress towards results, and achievement and reporting of development outcomes. ORQR will contribute to the work in the Performance Monitoring Group (PMG) to ensure broad buy-in across the Bank and efficient implementation of reforms.

Business Processes

5.12 Significantly revised business processes are being implemented, including Country team and peer review of operational proposals, and increased upstream quality assurance. Reinforced by effective oversight by the Operations Committee, this will be a key driver of strategic alignment, quality at entry and portfolio monitoring Bank-wide. The Bank has streamlined procedures, introduced greater delegation of authority, including to field offices, and is restructuring the procurement and financial management unit. This will speed project implementation and lead to significantly reduced project cycle times and non-financial transaction costs. The public and private sector arms will be better integrated through better alignment of processes, taking into account the specifics of private sector operations.

5.13 Major improvements have been made in both the content and presentation of many key documents in order to increase clarity and focus, and their linkage to the Bank's strategic objectives and operational commitments, as well as to National Development Plans and Poverty Reduction Strategy Papers. This includes, among others: Country Strategy Papers, Country

Portfolio Reviews, Project Appraisal Reports, and the Annual Portfolio Performance Report. The Bank has also developed revised project supervision report templates, Back-to-Office Reports, and country portfolio reviews. Further improvement and fine-tuning of these and other critical documents will be done on an ongoing basis.

5.14 A stronger and more operationally selective country focus will be captured in a new generation of country-owned strategies. These strategies will increasingly be produced jointly with key partners. For individual countries they will set out the Bank's operational focus with clarity and specificity, typically limiting their scope to 2 well-defined sectors, and in exceptional cases 3. They will provide a clear results framework with monitorable benchmarks linked meaningfully to projected operational activities, and fully integrate private sector operations and cross-cutting issues such as gender and climate change.

5.15 Portfolio management will be improved substantially. More active and effective management will be encouraged in part through a major improvement in quality of project data, the recruitment and effective empowerment of country program officers in headquarters and field offices, and assignment of Task Manager responsibilities to field-based professionals. Engaged and accountable management – in Tunis, in the field, and in Sector and Regional Departments – will be given stronger priority. Critical indicators of portfolio performance and management will be monitored at the senior management level.

5.16 The Bank will deliver corporate services more efficiently, including through improvements in CSVP's business processes and organizational structure. This may include outsourcing of support functions. The reform planned is geared towards increasing client orientation, supporting automation and increasing fiduciary controls. If approved by the Board in 2008, such reform will lead to changes such as creation of a more explicit accountability for client relation management, including the creation of client relation divisions in selected CSVP departments, which can serve as one-stop shop for most corporate services in these departments. Also the reform provides for the creation of a field office relations function, in order to strengthen CSVP responsiveness to decentralization. Such changes would start taking place beginning of 2009 pending Board approval. The review of organization and business processes is expected to be budget neutral.

Human Resources

5.17 The strategic priority is to support the decentralization strategy and improve the allocation of staff and skills in line with institutional priorities. It is expected that the proportion of staff focused on front-line operational delivery will increase. A comprehensive assessment will consider the present match between staffing skills and allocations and institutional priorities. The Bank Group will implement enhanced recruitment techniques that leverage best practices in technology, assessment centre methodologies, and strengthened induction and orientation practices; most positions will be advertised externally. Special effort will be made to improving the gender balance. The Bank will use flexibilities in the salary scales in order to attract and retain particular skills and to compete effectively in the global market for talent.

5.18 The Bank will also establish strengthened performance management and productivity assessment tools, accompanied by managerial training, to ensure that its workforce remains productive and fully qualified. The compensation framework will be revised, including bonuses and non-cash incentive programs for strong performers, in order to maintain competitiveness. A learning and development strategy will be implemented, with larger and more systematic training programs for staff and Management, in headquarters and field offices.

Communication

5.19 The Bank will, by mid 2009, develop a new Communications Strategy to make its operations more visible, intelligible and understood by all its stakeholders. Immediate implementation of the new Communications Strategy will be given foremost priority. The Strategy will be built upon the strategic pillars set out in this Medium Term Strategy. A key near-term priority is to improve the content and usability of the Banks intranet and website, making them more user-friendly and more interactive. In addition, the Bank will put in place Medium Term Communication Programs with specific objectives well-tailored to different external audiences or target groups.

Technology

5.20 Improvements in Information Technology are required to provide critical support for the Bank's mission.

Technology Improvement Plan

- Completion of the Broadband Integrated Telecommunication Services project by end 2008 will provide a major upgrade in the Bank's IT infrastructure.
- Network upgrades will continue, especially as improved fiber-based infrastructure becomes a viable alternative to the current slower satellite based technology.
- Upgrade of software and hardware, ensure adequate IT tools to all new staff and new offices, and enhance security.
- Upgrade of core ERP (Enterprise Resource Planning) SAP in early 2009, to provide field offices a secure disbursement platform, facilitate reporting, support new financial products, and improve procurement workflow by end 2010.
- Data-warehouse reviewed to improve external stakeholders' ability to leverage the Bank's knowledge base.
- Upgrade of internal knowledge sharing tools and delivery platforms such as Intranet, Document Management System, and its website.

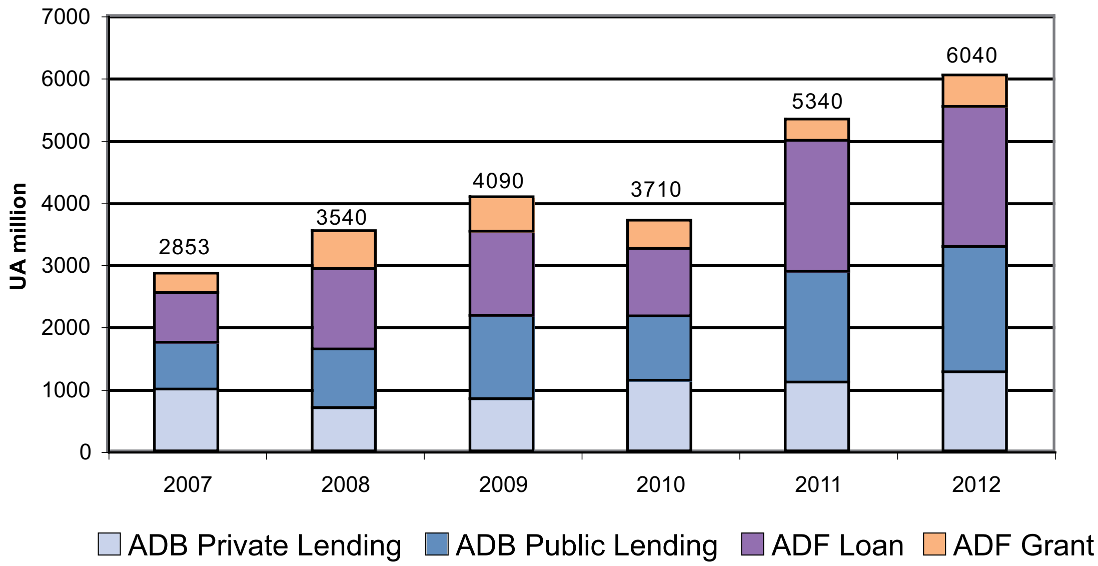
PRELIMINARY RESOURCE FRAMEWORK AND ADMINISTRATIVE REQUIREMENTS

Indicative Lending and Exposure

5.21 Lending projections for the period 2008 to 2012 seek to frame the expected level of resources required by the Bank Group if the strategic objectives described in this document are to be delivered. They are based on the following assumptions and estimates; these are purely indicative and not intended to fix or commit to any particular level or to pre-empt decisions by the Boards.

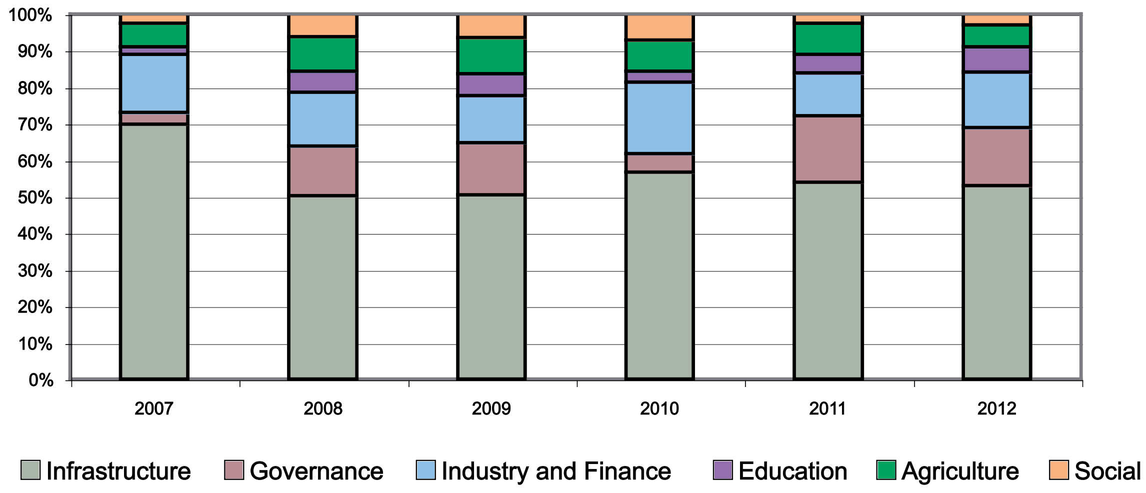
- The ADF-12 replenishment is assumed to be 50% higher than ADF-11;
- Lending margins estimated to be on average 20 basis points for sovereign loans and 120 basis points for non-sovereign loans;
- The volume of lending is derived from the Private Sector Strategy for non-sovereign lending and the projected 2008 to 2012 Operational Lending Program for non sovereign lending;
- New lending approvals will disburse over an average period of 7 years for sovereign operations and 2 to 3 years for non-sovereign operations;
- New loans are assumed to have an average life of 15 years with a grace period of 5 years; and
- The risk profile of future operations is assumed to remain in the moderate risk category (internal credit rating of 3 to 4);
- Distribution of net income for development initiatives is assumed to remain unchanged at 60% in average of the annual allocable income;

Indicative Lending Projections



Numbers rounded for 2008-2012
Source: COBS, ORVP

Sector Split of the Indicative Lending Projections



Source: COBS, ORVP

5.22 The implications of the envisaged lending program on the Bank's financials are described in Annex V.

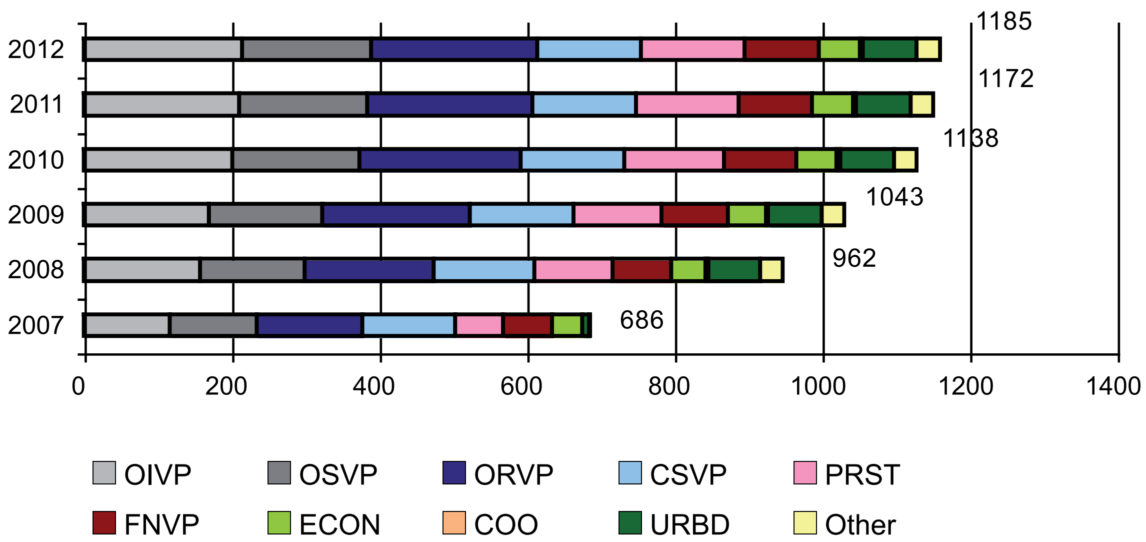
Resource Implications

5.23 The Strategy will require the Bank to allocate adequate staff and financial resources to accomplish priority institutional objectives, particularly:

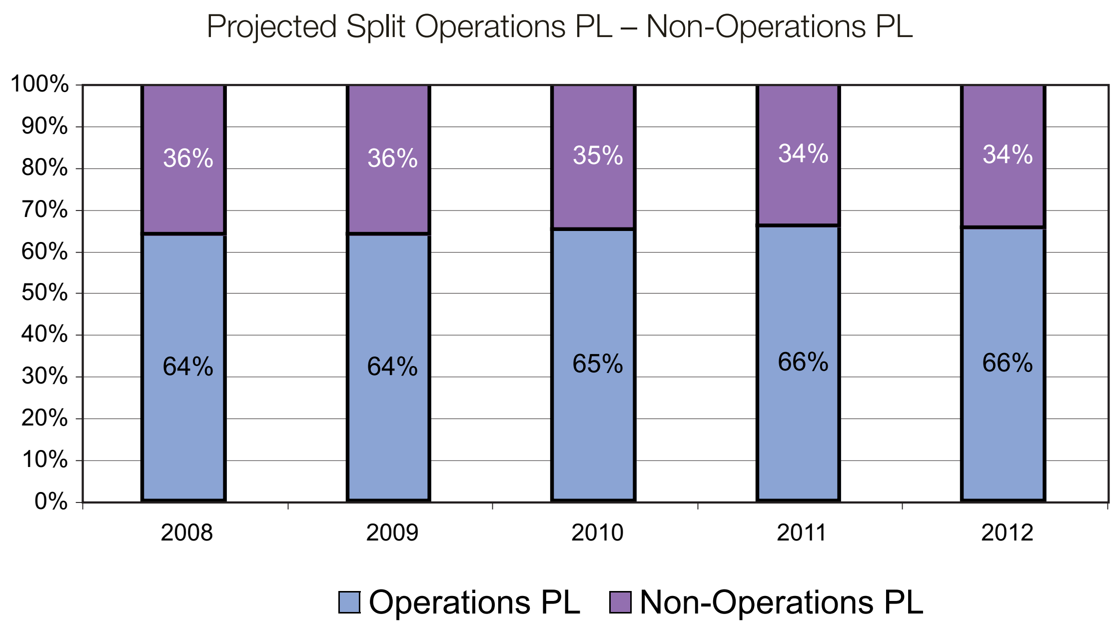
- Delivering strategically selective operations in a decentralised context
- More effective engagement on key challenges such as climate change, the food crisis, and gender
- More intensive and effective portfolio management, including speedier service delivery
- Delivering on harmonization and results commitments
- Provision of more and higher quality knowledge services
- Implementing the Bank's HR strategy

5.24 An analysis of current skills and gaps will guide decisions on staffing profile and levels. At the same time efficiency gains will be sought, and outsourcing non-core functions will be actively explored. All options will be considered and proposals put to the Board by the end of 2008. Projection of staffing levels and deployment are below and attached hereto in Annex VI.

Indicative Staffing Projections 2008-2012 – International PL



Other: Positions given by units for YP pool and for staff on study leave
Source: COBS, ORVP



Only International PL; Operations PL: OIVP, OSVP, ORVP, ECON, OPEV, GECL.1, FFMA.2, FTRY.4, FFCO.3
Source: COBS, ORVP

5.25 Administrative cost projections flow from extensive internal consultation and are built around agreed work plans. While these plans represent Management's best judgments and estimates, they remain indicative; they are intended to provide sufficient flexibility for further refinement in the light of shareholder views and new pressures coming from the strategy agreed. The Bank will demonstrate that it is using its existing resources effectively and efficiently.

6. Monitoring and Reporting

The Bank has developed a variety of instruments through which progress in executing this Medium Term Strategy will be monitored and reported. Critical indicators are captured by the Corporate, Complex and Departmental KPIs, which will be reported to the Board on a quarterly basis. Key results specific to the ADF-11 agreement will be reported to the Board and the Deputies as part of the ADF-11 Mid-term Review. Bank Management will also prepare a concise "MTS Execution and Delivery Report" for the Boards of Governors at the time of each Annual Meeting. Finally, Management will commit to providing the Boards with a comprehensive Mid-term review of MTS execution in mid-2010.

7. Conclusion

This Medium Term Strategy sets out a comprehensive action plan to deliver on the core priorities and expectations that have emerged from an extensive process of consultations with the Bank Groups' many and diverse stakeholders. It commits Bank Management to deepen, extend and accelerate the many reforms that have been underway since late 2005, including with respect to operational focus and selectivity, enhanced client focus and field presence, improved delivery and results, and more innovative and relevant products and services across the full range of regional member countries. The strategy is both ambitious and realistic, and intended to guide the Bank in delivering on its commitment to serve Africa at a moment of unique promise and challenge.

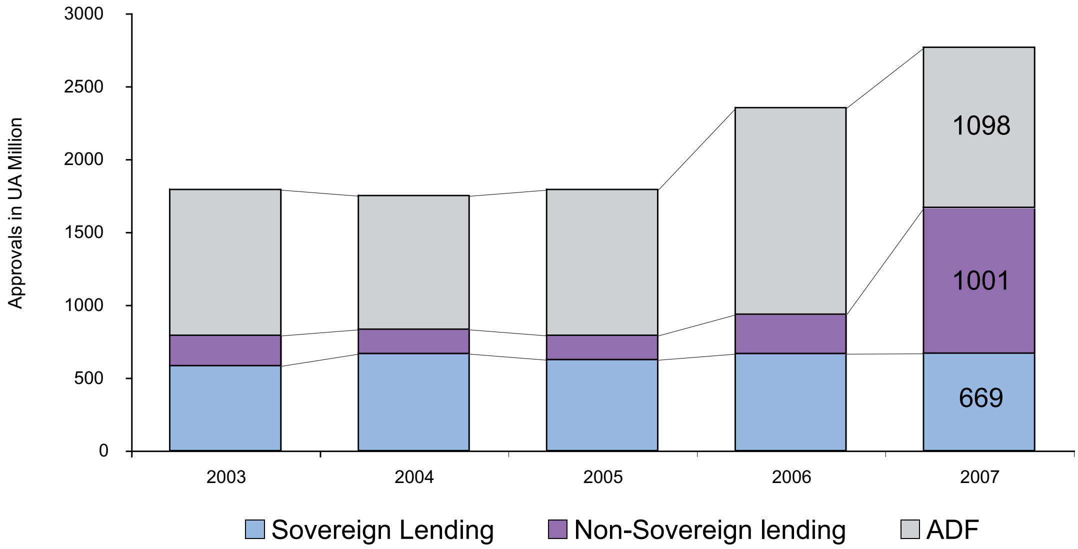
ANNEXES

Annex 1

Results under the Strategic Plan 2003-2007

Figure 1: Total Bank Group Lending

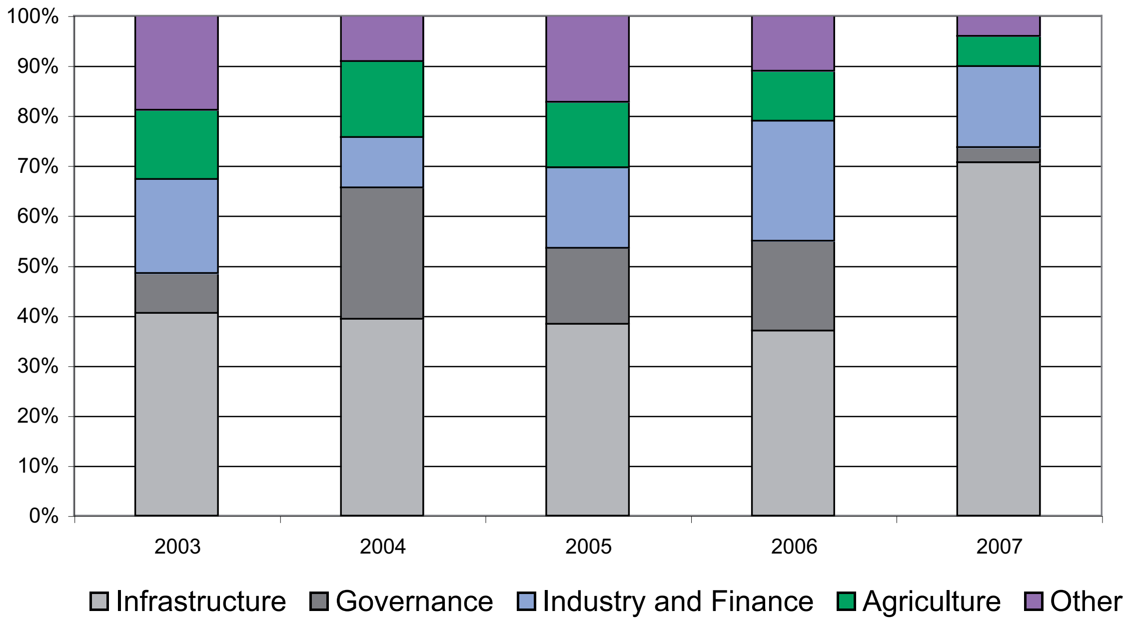
from 2003 to 2007



Source: ADB Statistics Department

Figure 2: Sector Split of Total Bank Group Lending

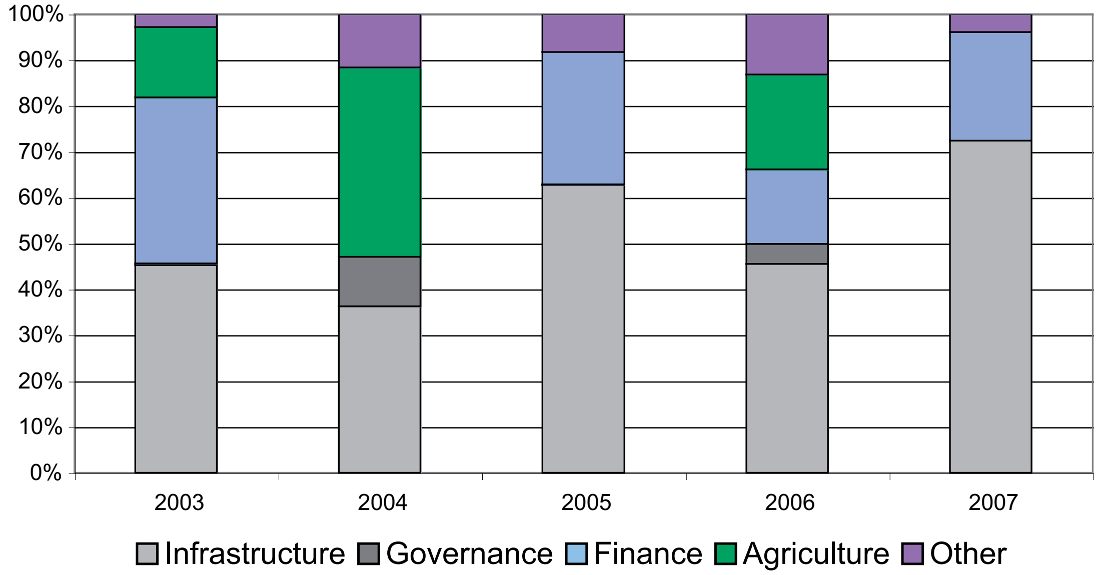
from 2003 to 2007



Source: ADB Statistics Department

Figure 3: Sector Split of Multinational Lending

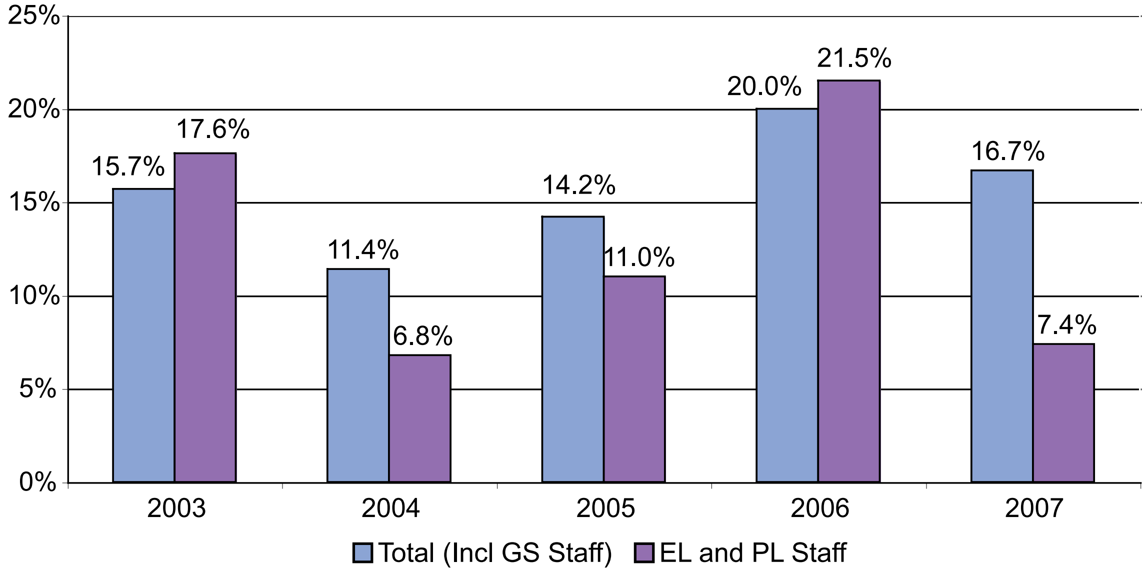
from 2003 to 2007



Source: ADB Statistics Department

Figure 4: Bank Group Vacancy Rates

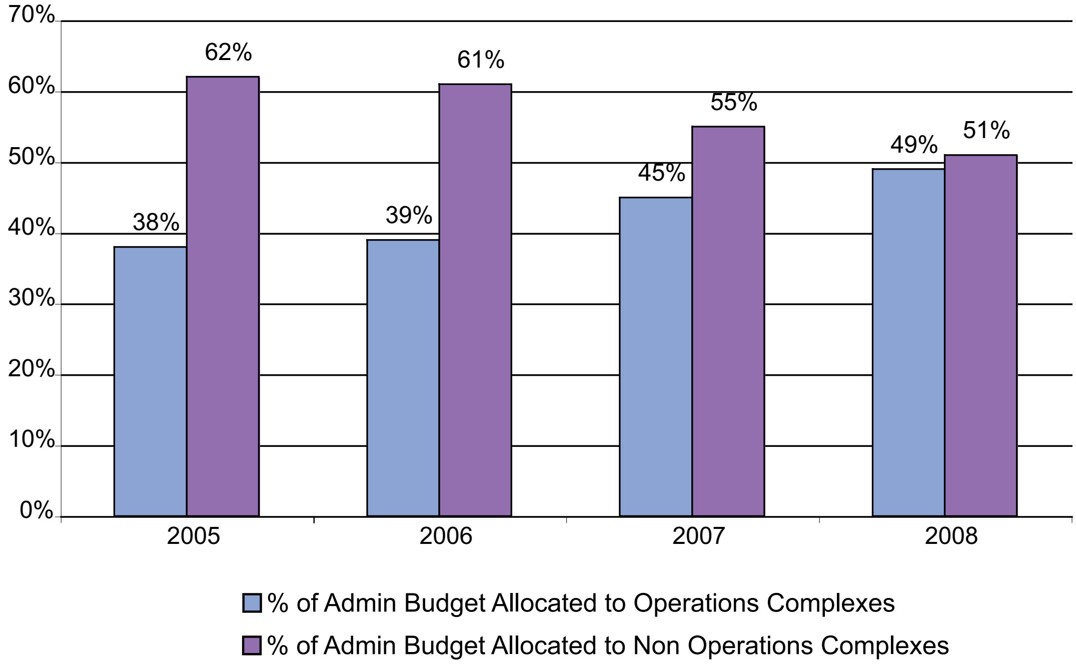
2003 to 2007



Source: Human Resource Department

Figure 5: Administrative Budget Allocation

to Complexes from 2005 to 2008



Source: Financial Planning and Budgeting Group (Definition of operation vs. non operations differs from definition used for staffing projections under Annex VI)

Annex 2

Bank Strategic Framework 2008-2012

Operational Selectivity
• Vertical focus on four key areas: Infrastructure, Governance, Higher education & vocational training, and Private Sector • Horizontal emphasis on Regional Integration, Fragile States, and Client-responsive engagement, in particular in MICs • Selective support of agricultural development and health-related MDGs • Mainstreaming of crosscutting themes: Gender, Environment and Climate Change
Results and Performance
• Alignment of business processes with results and performance focus at project preparation, implementation and evaluation level • Improved monitoring of results both at operational and non-operational level through key performance indicators • Mainstreaming of results measurement through improved statistical and database management • Publication and dissemination of flagship reports on selected topics in line with the Bank's sector focus
Decentralization
• Enhanced delivery of products and services through field office presence and improved field office infrastructure • Decentralization of business processes through delegation of authorities and operational involvement of field office staff • Further deployment of sector staff to field offices to strengthen project monitoring and implementation
Streamlined Internal Processes
• Embedding of operational selectivity and results focus in organizational structure through creation of new departments • Integration of strategic planning, programming and budgeting; introduction of results based budgeting and performance monitoring to ensure optimized allocation of resources
Staffing, Knowledge, Financials, and Partnerships as Foundation
• Implementation of new HR strategy to strengthen allocation of staff and skills • Improvement of statistical capacity and publication and dissemination of flagship reports on selected topics in line with the Bank's sector focus • Review of the Capital Adequacy Framework to ensure safeguarding the Bank's financial integrity and maintaining the AAA rating • Work in more effective partnerships with other development agencies

Annex 3

Preliminary Recommendations of Internal Working Groups

MIC Working Group – Preliminary Recommendations
- Revisit business processes to better align Bank's assistance with Government development strategy, shorten project cycle, increase flexibility and recognize national capacity (CSP format, procurement and environmental rules) - Enhance the competitiveness of loan pricing and financial products (longer tenors and grace periods, African lending currencies, risk management products and guarantees, sub sovereign lending, etc.) subject to Board's approval - Implement pilot projects which blend concessional resources and ADB financing - Establish priority demand areas and assess expertise for the provision of tailored advisory services by the Bank - Enhance communication about the Bank's development assistance and product mix within the Bank and towards clients

Decentralization Working Group – Preliminary Recommendations
- A coordination and monitoring group for decentralisation ("revised PECOF"), appointed and functioning (by end-2008) - All Departments and Units of Bank, operations and non-operations, to prepare detailed Decentralisation Action Plans, setting out what functions, including management functions, are better performed in the field or at TRA/HQ, and/or how they will do business differently in a more decentralised institution, along with the human and financial resource implications (by end first quarter '09) - OpsCom to review how effectively Decentralisation Guidelines are being applied, and to consider whether more comprehensive guidance is required (by end first quarter '09) - Greater field leadership in delivery of non-lending products and portfolio management services (by end '09) - Substantial increase in field-based Task Managers (by end '09)

Annexe 4

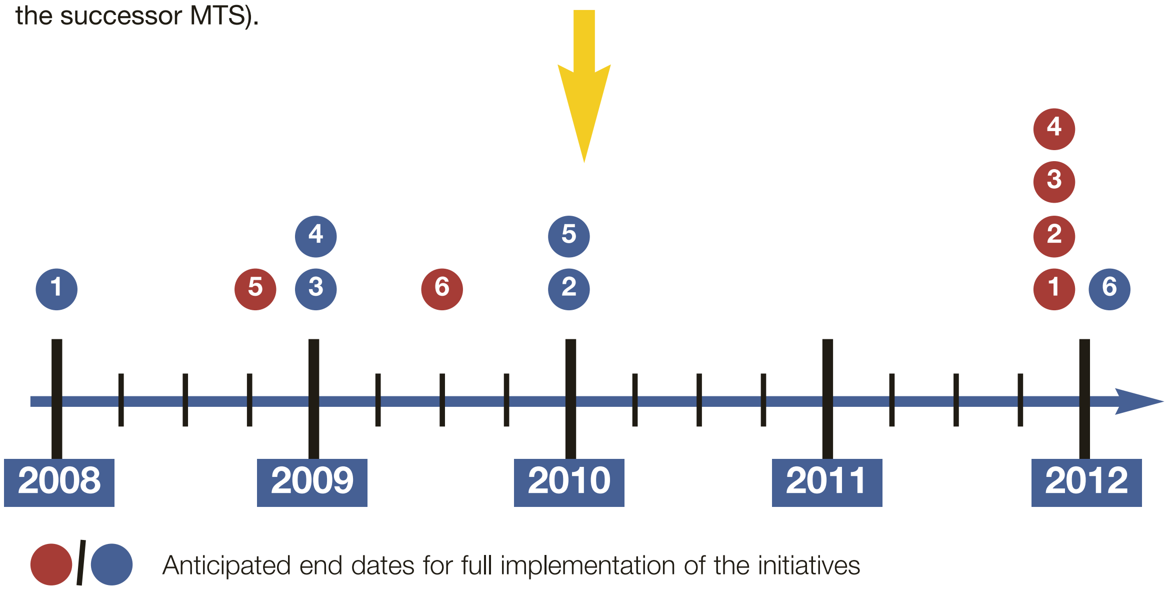
Complex Specific Implementation Plans

COBS & PMG – KEY STRATEGIC INITIATIVES

1. **Results Based Budgeting**: to ensure that allocation of resources is in line with the priority objectives of the MTS, including Country Programming, and to deliver dynamic results-oriented work programmes and budget.
2. **Budget Management Capacity Building** to empower Budget Coordinators and Managers and enable them to optimize and be fully accountable for the management of their allocated financial and human resources.
3. **Multi-year Budget Framework**: to prepare a 3-year comprehensive Administrative and Capital Expenditure rolling Budget fully aligned with the Strategy.
4. **Monitoring Framework**: to implement and operate a System providing Management with timely information about processes status and operational performance, based on a set of agreed KPIs.
5. **UA budgeting**: to provide full flexibility and control over resource management to Managers, while preserving the financial integrity of the Bank through the implementation of appropriate safeguards and controls (full accountability).
6. **Monitoring of the 2008-12 MTS**: to ensure its comprehensive Bank-wide implementation; be alert to African and Global environment /developments and their possible impact on the Bank's strategic framework and advise Senior Management accordingly (2009: end-of-year briefing on the MTS; 2010: Mid-term review of the MTS; 2011end-of-year briefing on the MTS performance; 2012: review of the overall MTS performance and Preparation of the successor MTS).

FNVP – KEY STRATEGIC INITIATIVES

1. **Raise funds in international capital markets at a cost significantly below LIBOR**: will efficiently refinance the growing portfolio of the Bank's operations (FTRY).
2. **Market existing financial products and develop new ones** to address client demand in an efficient manner: will improve the Bank's competitive position and enlarge its client base (FTRY).
3. **Advance and optimize the decentralization of disbursements to Field Offices**: will contribute to the success of the MTS by improving project implementation (FFCO).
4. **Consolidate the gains from the implementation of the COSO framework** and establish the pillars for coordinated Operational Risk management: will help provide an integrated framework for managing risks in an increasingly busy, decentralized and complex environment (FFCO).
5. **Review of the Bank's overall Capital Adequacy Framework** with focus on Non-Sovereign Credit Risk limits and Exposure management – will strive to ensure (ii) maintaining its AAA rating; ande (i) safeguarding the financial integrity of the Bank (FFMA).
6. **Revise the Bank's Credit Risk Management Framework** – will ensure an adequate portfolio risk profile, in particular through strengthening the portfolio oversight via two structures with distinct functions: (i) credit transaction and risk analytics, as well as (ii) credit portfolio risk management (FFMA).



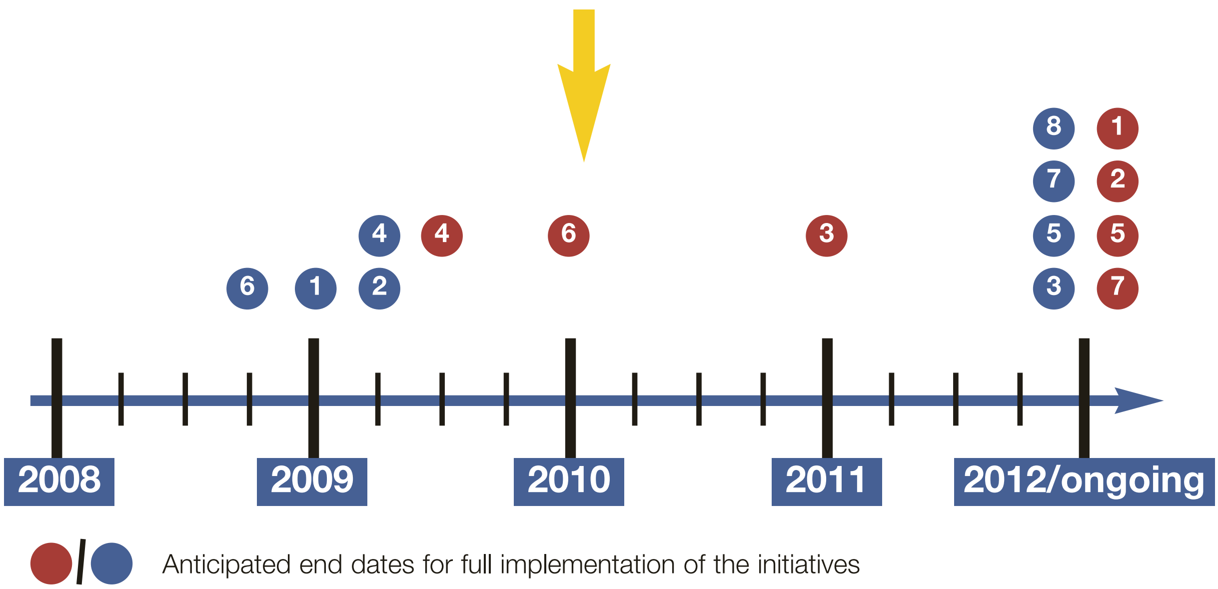
Anticipated end dates for full implementation of the initiatives

CSVP – KEY STRATEGIC INITIATIVES

1. **Streamlining of CSVP organizational structure and business process** in order to increase the Bank internal organizational effectiveness (CSVP).
2. **Update Bank's Disaster Recovery and Business Continuity** to increase Bank's preparedness in face of business interruptions and disasters (CSVP).
3. **Continuously strengthen the allocation of staff and skills** in line with institutional strategic priorities including annual review of Bank's Compensations and Benefits Framework in order to attract, retain and motivate talents (CHRM).
4. **Management will roll e-performance management** and corporate behavior and management skills development initiatives in order to best leverage the Bank's staff (CHRM).
5. **Development of knowledge Platforms including enhancement of intranet** will contribute to the success of the MTS in strengthening the Bank's role as knowledge institution (CIMM).
6. **Upgrade Telecom Infrastructure in Field Office** will contribute to achieve the MTS decentralization goals by reducing the IT gap between HQ and FO (CIMM).
7. **The provision of facilities to Field Offices** in order to ensure that all FO are fully equipped (CGSP).
8. **Language Training Programs and increasing use of language technology in order to** support the Bank's decentralization and client orientation (CLSU).

OSVP – KEY STRATEGIC INITIATIVES

1. **Congo Basin Fund (CBF).** The Fund will contribute to the MTS by mitigating climate change through reduced deforestation in the Basin Region and building capacity of the population for sustainable means of livelihood (OSAN).
2. **Africa Fertilizer Financing Mechanism (AFFM)** will help increase agriculture productivity with a strong public-private partnership sector foundation and create conditions for an African Green Revolution (OSAN).
3. **Making Finance Work for Africa** is a joint donor initiative which aims to improve the financial sector performance in RMCs through better coordination and harmonization amongst partners (OSGE).
4. **Extractive Industries Transparency Initiative (EITI)** will contribute to the success of the MTS by promoting greater transparency and accountability in the management of EI resources, particularly in fragile states – At least 3 eligible countries to be supported in a first stage (OSGE).
5. **CLIM-DEV For Africa** will contribute to the Bank's work on climate change adaptation and mitigation through improved RMC access to climate variability information systems, improved planning and forecasting of climate variability trends and early warning systems (OSUS).
6. **Gender Award** will contribute to institute a culture of gender mainstreaming in the Bank's lending and non-lending work through improved staff motivation and exposure (OSUS).
7. **Fragile States Facility** will accelerate the delivery of development services in post-conflict and post-crisis countries (OSFU).



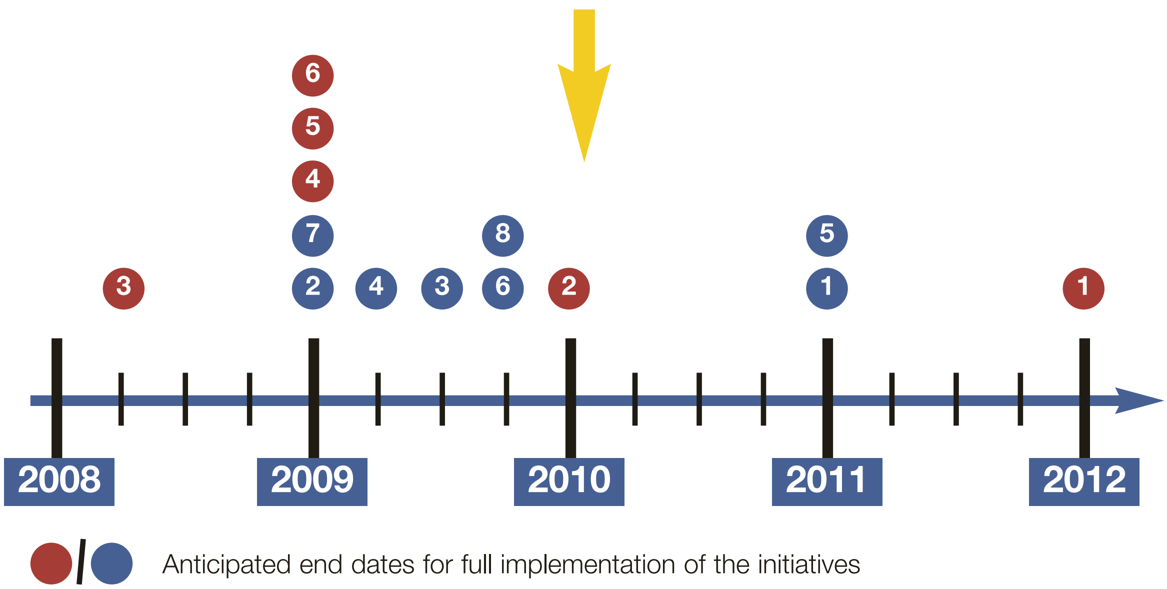
Anticipated end dates for full implementation of the initiatives

ORVP – KEY STRATEGIC INITIATIVES

1. **Successful ADF-12 replenishment** with at least 50% increase on ADF11.
2. **Operational budget alignment on the basis of strategic priorities** and aligned with delivery on institutional and complex performance indicators.
3. **Greater strategic selectivity** through redesigned CSPs and well functioning Country Teams.
4. **Getting closer to clients**: dual reporting in place and working, key staff moved from HQ to the field, local staff in place, field office capacities reviewed and ramped up through adequate training.
5. **Reduction of transaction costs through streamlined procurement**; closure on rules harmonized with those of key partners, reducing transactions costs and “hassle factor” for clients. Universal procurement, when endorsed by all shareholders, will allow further simplification and lowering the costs.
6. **Adoption and implementation of key strategies and operational frameworks**: MIC, Fragile States, Regional Operations.
7. **Setting up of efficient management information system** including results measurement on an ongoing basis.
8. **Demonstrable progress toward delivery on results agenda**, through effective new Results Department, and substantially improved readiness in quality at entry based on effective internal review processes.

ECON – KEY STRATEGIC INITIATIVES

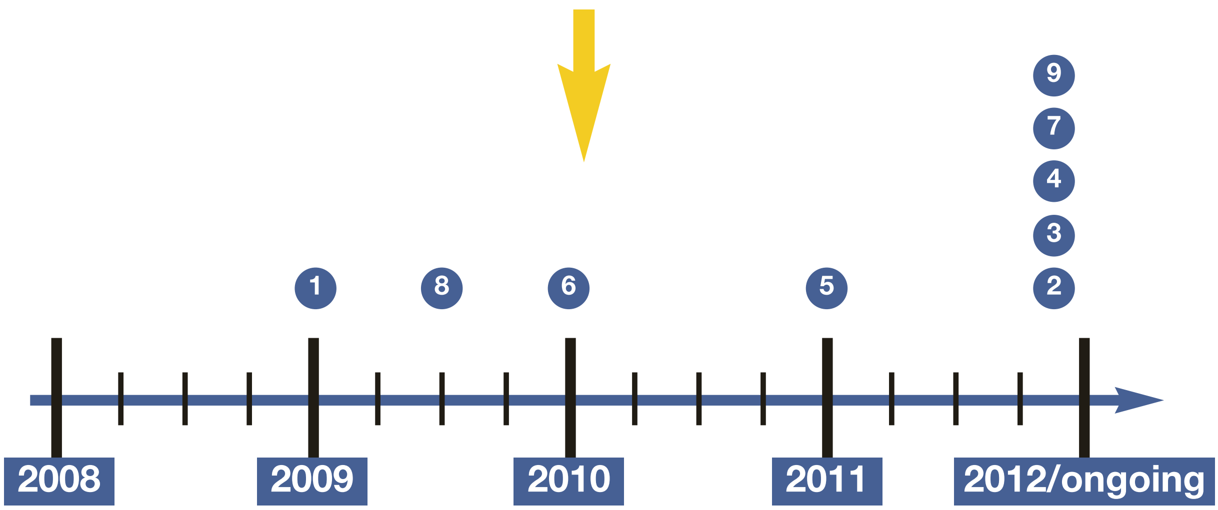
1. **Publication and dissemination of Bank’s flagships** will help to make the Bank an effective and respected voice for Africa.
2. **Improvement of operational effectiveness through upstream active participation of ECON** will contribute in making the Bank globally recognized as a high-impact and well focused DFI.
3. **Rationalizing and expanding external partnership** will improve effectiveness with focus on projects in high demand, Bank’s strength and having greatest impact.
4. **Mainstreaming measurement issues in the bank’s operations, including database management** will help to reach the objectives of providing evidence of high-impact results and making the Bank to be globally recognized and sought after.
5. **Support to data development and statistical capacity building in RMCs, including harmonization of statistical systems** will help to build capable states and improving evidence-based governance, private sector operations, higher education and technology and vocational training.
6. **Intensifying skill and other human capacities in RMCs** will contribute to reach the objectives of substantially increasing and improving the extraction of knowledge from the Bank’s work and that of others.



Anticipated end dates for full implementation of the initiatives

OIVP – KEY STRATEGIC INITIATIVES

1. **Improving infrastructure knowledge** – through sector work on infrastructure outcomes, SOEs performance, and nexus with climate change and agriculture – and improving communication and staff learning will build the Bank's core assets, improve quality at entry and ensure high and sustainable impact of infrastructure investments (OINF).
2. **Water Supply and Sanitation Initiatives (RWSSI and WSS)** will increase sustainable access to water supply and sanitation in rural (RWSSI), urban and peri-urban (WSS) areas of Africa (OWAS).
3. **African Water Facility and Water Partnership** will improve the enabling environment in RMCs to catalyze water supply investments, strengthen M&E capacity, respond to project preparation needs, facilitate trans-boundary cooperative arrangements and invest in water supply projects that promote innovation, improved technologies and approaches for wide scale adoption (OWAS).
4. **Multidonor Water Partnership Programme (MDWPP)** will operationalize the Bank's policy on Integrated Water Resources Management (IWRM) principles in sector operations, create awareness on and enhance commitment to IWRM among RMCs, improve water information management in the Bank for enhancing decision making and develop knowledge products (OWAS).
5. **Spatial Development Initiative (SDI)** will help building competitive infrastructure to promote regional integration and trade with the private sector (ONRI/OPSM).
6. **AU/NEPAD Infrastructure Medium to long term Strategic Framework (PIDA, formerly MLTSF)** will promote a coordinated and prioritized approach to scale-up infrastructure development (ONRI/OPSM).
7. **Promoting Public-Private Partnerships (PPP)** will leverage the Bank's financial strength and optimize risk sharing between public and private partners to increase volume, quality and cost-effectiveness of infrastructure investments (OINF/OWAS/OPSM).
8. **The African Financing Partnership (AFP)** will coordinate the activities of the IFIs working on private sector development in Africa to improve efficiency and to catalyze private finance into the continent (OPSM).
9. **The new Syndication Program for Private Sector Operations** will enhance the Bank's catalytic role by encouraging private financiers to participate in ADB financed operations at inception or to "buy down" loans from the Bank's portfolio. This will serve to free up risk capital and thus increase ithe Bank's overall impact within a given resource base (OPSM).



Anticipated end dates for full implementation of the initiatives

Annex 5

Impact of Envisaged Lending Program on Bank's Financials

- The Bank's net income will remain between UA 136 m and UA 159 m over the next 5 years.
- The ADF resource capacity will increase significantly over the medium term and its financials will show a surplus of UA 15m by 2012.
- The Bank's outstanding portfolio is forecast to grow from UA 5.5bn at the end of 2007 to UA 9.4 bn by 2012.
- The Bank's risk bearing capacity as measured by its risk capital utilization rate will be above the critical limit of 80% by 2012 while the non-sovereign component is expected to exceed the 20% risk capital ceiling by 2009.

The existing limit of 20% is therefore likely to become a global constraint. Higher non-sovereign exposure limits would need to be considered in the next few years to allow for more ambitious growth scenarios. More generally, in order to see how the Bank Group can best leverage its financial situation for the benefit of its clients, there will be a need to safeguard the Bank's financial integrity while ensuring an optimal use of its capital.

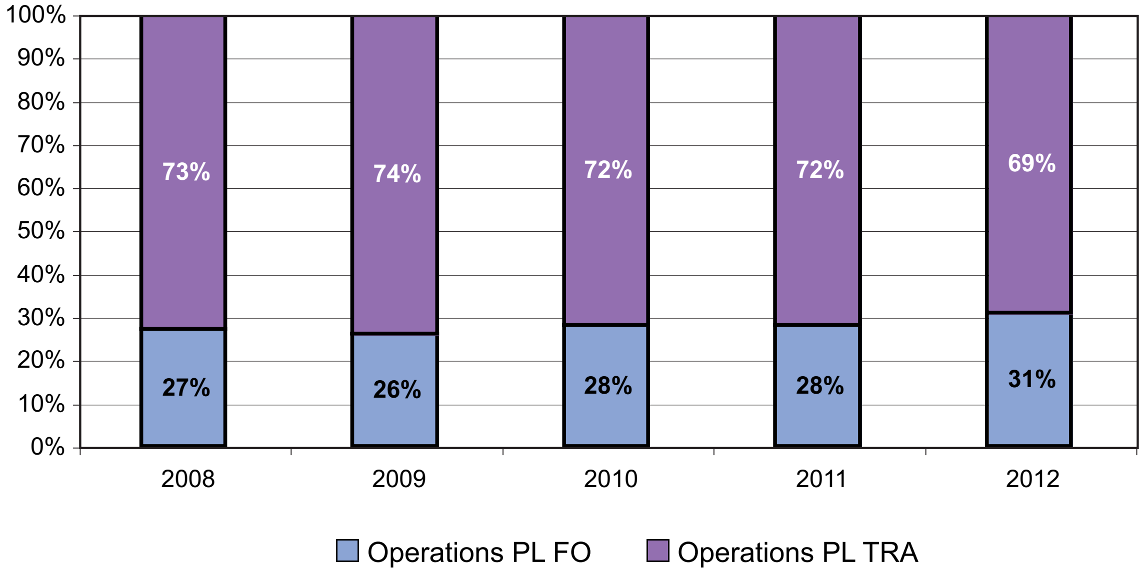
To this end, the Bank will further investigate what is its best capital level in light of its medium-term strategy, along the following lines:

- Maintain the Bank's triple-A credit rating through sound, professional risk management, including strengthened treasury risk management. Implement more proactive, early warning systems to facilitate risk management decisions.
- Review the Bank's current credit guidelines and analytical framework including the assessment of new risk management tools. In common with other MDBs this will include a review of the capital adequacy framework and sovereign and non-sovereign exposure limits.
- Work with outside experts to review the potential of the ADB balance sheet.
- Explore new instruments and the blending of resources so as to meet the particular needs of all RMCs. It will do so in conjunction with the other IFIs who are undertaking similar exercises.

Annex 6

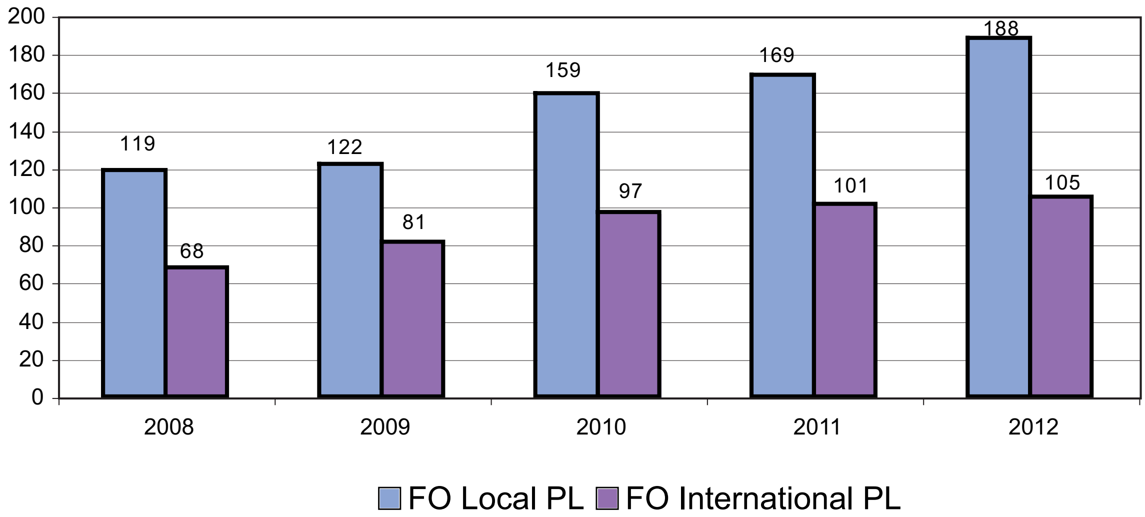
Preliminary Staffing Implications under MTS 2008-2012

Figure 1: Indicative Split Operations PL in FOs – Operations PL in TRA



Including Local PL
Source: COBS, ORVP

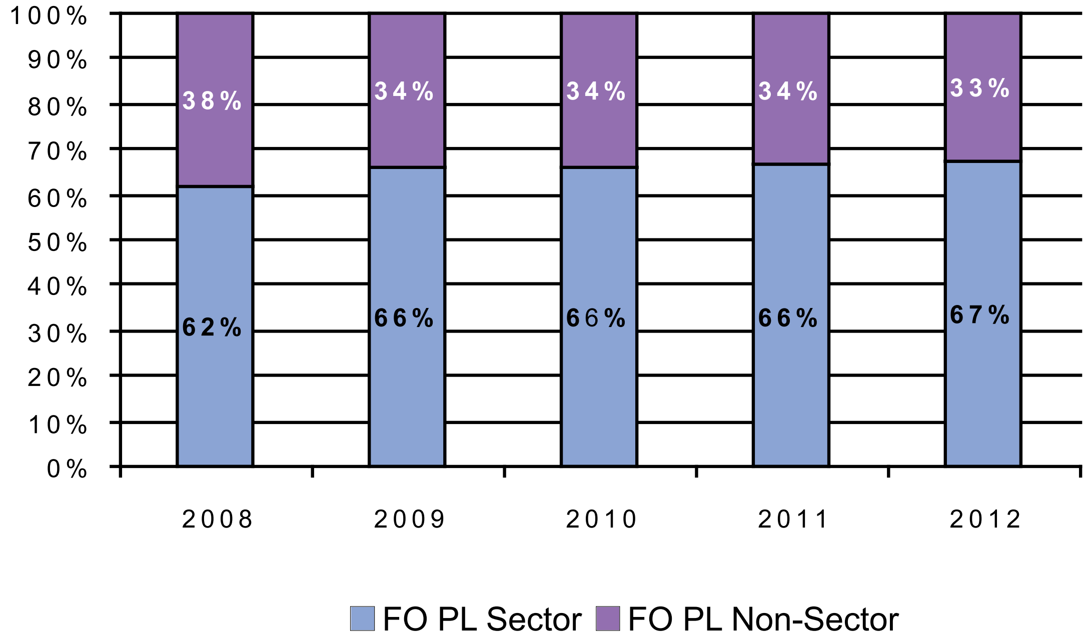
Figure 2: Indicative Split FO Local PL – FO International PL



Sources: COBS, ORVP

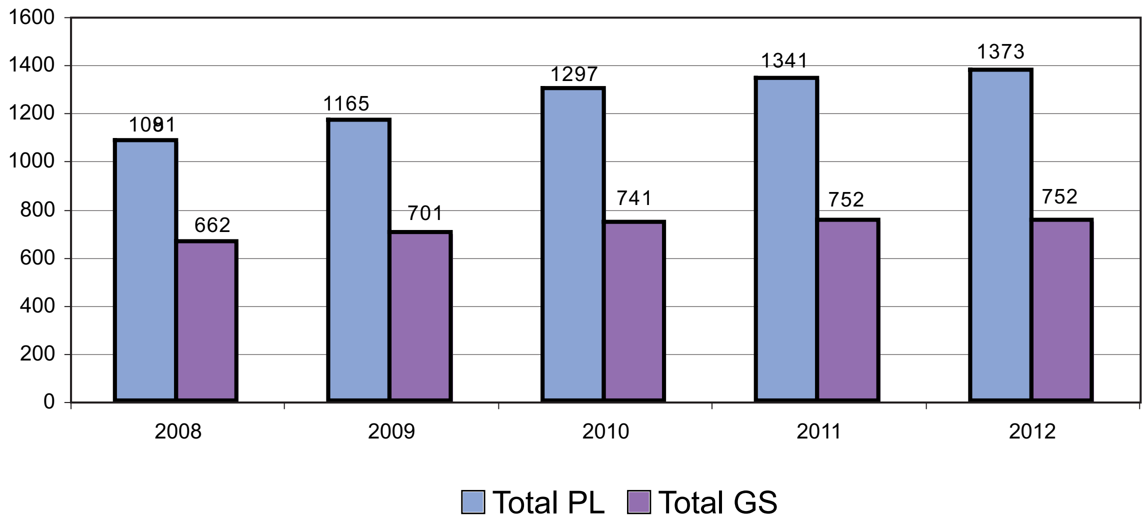
Figure 3: Indicative Split Sector PL in FO

– Non-Sector PL in FO



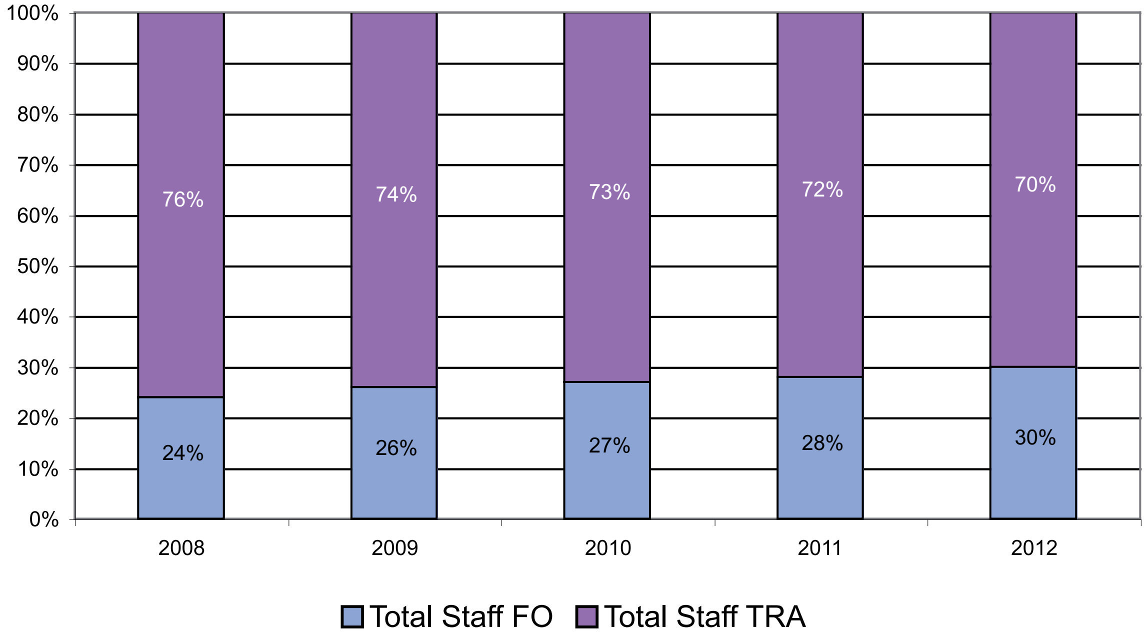
Including Local PL
Source: COBS, ORVP

Figure 4: Indicative Split PL – GS



Including FO and TRA; Including Local PL
Source: COBS, ORVP

Figure 5: Indicative Split TRA – FO



Including international PL, Local PL, GS in TRA, and GS in FO
Source: COBS, ORVP

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