



**Independent Evaluation of the
Decentralisation Strategy and Process
in the African Development Bank**

Board Report – Final Draft

June 2009

**Prepared by the Evaluation Team,
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(PARC)**

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Registered in England and Wales No. 3613839 and VAT No. 729 4246 18

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Acronyms and Abbreviations

| | |
|-------|---|
| ADB | African Development Bank (financing) |
| ADF | African Development Fund |
| AfDB | African Development Bank |
| AsDB | Asian Development Bank |
| AU | African Union |
| CO | Country Office |
| CODE | Committee of Operations and Development Effectiveness |
| CSP | Country Strategy Paper |
| DoA | Delegation of Authority Matrix |
| DWG | Decentralisation Working Group |
| EDS | Enhanced Decentralisation Strategy |
| ESW | Economic Sector Work |
| FDI | Foreign Direct Investment |
| FO | Field Office |
| FOA | Formal Organisational Assessment |
| ICT | Information and Communication Technology |
| IFAD | International Fund for Agriculture Development |
| IFC | International Finance Corporation |
| IFI | International Finance Institution |
| HCA | Host Country Agreement |
| HQ | Headquarters of AfDB, in Tunis |
| KPI | Key Performance Indicator |
| MDG | Millennium Development Goal |
| MfDR | Managing for Development Results |
| MIC | Middle Income Country |
| MSC | Most Significant Change technique |
| MTS | Medium Term Strategy |
| NEPAD | New Partnership for African Development |
| NPO | National Programme Office |
| OPEV | Operations Evaluation Department |
| PAR | Projects At Risk |
| PCR | Project Completion Review |
| PECOF | Permanent Committee of Field Offices |
| PIU | Project Implementation Unit |
| PP | Problematic Project |
| PPP | Potentially Problematic Project |
| REC | Regional Economic Commission |

| | |
|-----|-------------------------|
| RM | Resident Mission |
| RMC | Regional Member Country |
| RO | Regional Office |
| RR | Resident Representative |
| UA | Unit of Account |
| WB | World Bank |

Executive Summary

Background, Context and Approach

i. The ‘Proposed Strategy for the Decentralisation of the Activities of the African Development Bank Group’ (hereafter ‘Decentralisation Strategy’) was approved by the Board of the African Development Bank (AfDB) in September 2004. The key objectives of the Decentralisation Strategy were to be closer to the client base and to more effectively participate in the countries’ development efforts.

ii. Management pursued a gradual and flexible approach to decentralisation involving the establishment of a network of Field Offices in Regional Member Countries (RMCs). This built on an earlier pilot of field presence to support project implementation and was designed to move beyond a traditional representative function; strengthening strategic partnerships and better managing the project cycle, with positive effects on client satisfaction and the quality of the portfolio.

iii. In 2006 the AfDB introduced a wider set of institutional reforms. Allied to this a set of proposals for an ‘Enhanced Decentralisation Strategy: Strengthening Country Focus and Client Responsiveness through a Tailored Approach’ (hereafter ‘EDS’) was presented by Management to the Board. The proposals were discussed, but not formally approved. Despite the absence of a formal Board approval, the ‘whole Bank approach’ to decentralisation (delegation of authority within a country focus perspective) became the operating norm.

iv. The broad scope and expectations within the AfDB of decentralisation have continued to evolve shaped by changes in the external environment, in particular the commitments on improving aid effectiveness, and changes in corporate objectives. Effective and efficient decentralisation is now centre stage to the realisation of the 2012 vision of the Medium Term Strategy (MTS 2008-12) which together with an overall focus on significantly improving development results includes important shifts in emphasis in operational areas such as knowledge services, regional integration, deeper engagement in middle income countries (MICs) and fragile states.

v. Against this background the overall aim of the evaluation is to inform and strengthen the AfDB’s approach to decentralisation, through systematic assessment of the decentralisation strategy and early experience of implementation; how far the process has progressed against plan and the ‘results’ to date. The core evaluation questions relate to relevance, effectiveness, efficiency and management of the process. Conclusions are drawn on the extent to which the decentralisation process in its current form/ track looks set to contribute to the overarching goal of *enhanced development impact of AfDB resources*.

vi. The evaluation used a mixed methods approach to combine an appreciation of the human dimensions of the decentralisation process with a more objective formal assessment. The Most Significant Change (MSC) technique was used to support and underpin the work on the Formal Organisational Analysis which in turn guided the framing of the enquiry through Perception Surveys. These tools were supported by the development of a logic model representation of the Decentralisation Strategy, visits to HQ, Field Offices and counter-factual visits. The country sample covered the variation of operating models to ‘Field Offices’ (FO) that the AfDB currently deploys in its lending operations; Country Office (CO), Regional Office (RO) - serving the Country Office and other countries in the sub-region - and National Programme Office (NPO).

vii. The availability and quality of hard data held within the AfDB Monitoring Systems has been a limiting factor for the evaluation. This has been compounded by the lack of rigorous monitoring and reporting mechanisms on decentralisation within management and by the relative immaturity of decentralisation within the AfDB. The Team has compensated for this by triangulating different sources of evidence however given the limitations, and particularly as we move up the results chain, the evaluation can only draw causal inferences rather than attribute.

Key Conclusions: Relevance, Effectiveness, Efficiency and Process Management

viii. The objectives of the Decentralisation Strategy were clearly expressed and have continued to evolve in line with growing expectations over what decentralisation will deliver for the AfDB. There has not been sufficient clarity on the causal connections through which the objectives are to be achieved, nor a clear ‘results framework’ providing a comprehensive set of targets against which progress can be assessed.

ix. The detail of the Decentralisation Strategy has been responsive to the changes in the external environment originating in the Paris Declaration process. With the interpretation of a country led approach, the AfDB has taken a path similar to that taken by other agencies, and one consistent with the major thrusts of its 2003-07 Strategic Plan.

x. The decentralisation process is behind schedule. Whilst nearing completion in terms of the number of FOs opened there are some significant gaps in terms of the planned FO network operating at full capacity (sector specialists in the field, delegated authority and Information and Communication Technology (ICT) connectivity). Small offices lack a critical mass of professional staff. To meet the MTS 2012 commitment of 45% of AfDB staff in the field a rapid step-up of staffing, largely through relocation of Tunis staff, will be needed in the next three years.

xi. Overall the objectives of the Decentralisation Strategy are being partially achieved:

- There is clear evidence of change in some important activity areas associated with improving portfolio management through field presence but this is not yet sufficiently strong nor widespread to deliver quality assured project processes.
- There has been no significant change in the nature of the dialogue between the AfDB and the RMC. The proximity of FOs has brought a change in the frequency and responsiveness of dialogue – two important elements in the long term process of building trust – however the dialogue has yet to mature to a more challenging form which would have the prospect of a more appreciable effect on improving development outcomes.
- Decentralisation is improving the visibility of the AfDB within the national setting and within the donor coordination landscape. The AfDB’s effort to establish FOs has been generally well appreciated by external stakeholders and there are strong centres of enthusiasm for decentralisation - and further decentralisation – both within the AfDB, and amongst its clients and partners.
- There has been a minimal effect in terms of the AfDB strengthening its ties with regional economic entities and its links with the private sector and civil society.
- Decentralisation is proving to be a positive factor in the growth of the lending volume of the AfDB, particularly in those countries eligible for ADB funding. The evidence is not sufficiently strong to establish causality and increases are likely to be the result of a combination of factors.

xii. There has been a consistent annual underspend on decentralisation. The capital (set-up) and running (operating) costs of the decentralisation process have been less than annually budgeted for over the period 2004 to 2008. The protracted nature of the decentralisation process has been the key factor.

xiii. The final costs for the set-up of the network of FOs are predicted to be close to that originally budgeted for. We expect annual operating costs to be up to double that originally estimated with no or very limited cost savings at HQ.

xiv. The Decentralisation Strategy has been an ambitious undertaking and has coincided with an intense period of wider reforms within the AfDB. Together, this has placed considerable demands on management which, despite considerable efforts, have not been fully met. One key area of weakness has been in maintaining a ‘whole view’ on decentralisation – making sure that small things do not undermine big gains – and in ensuring consistency and coherence between the wider AfDB reforms and decentralisation. Decentralisation has not been actively managed as a change project in itself or as part of a wider change process.

xv. There is an inevitable – and at times uncomfortable – tension, between the diversity in local directions that decentralisation brings and the resultant unevenness across the AfDB, with the desired moves for a higher degree of corporate standardisation. The ‘one AfDB’ ethos is a strong positive force which decentralisation has strengthened. This provides a good platform for developing new ways of AfDB working.

xvi. The set of challenges and issues the AfDB has confronted in delivering its Decentralisation Strategy are common to the experiences of other comparable agencies. For example; decentralisation is associated with increased costs, efficiency gains are not automatic, weak monitoring of the process and results of decentralisation, decentralisation not recognised (nor managed) as a key element of a wider change process.

Conclusion and Recommendations

xvii. Decentralisation within the AfDB is neither complete nor mature enough to provide evidence at this stage of any benefits at scale. There is evidence of some clear immediate advantages to having some form of field presence in RMCs and the promise of stronger development results through a higher performing portfolio. This concurs with the findings of other agencies provided that FOs are fully geared for their expected role taking account of the need for economies of scale, and that there is flexibility to respond to a diversity of conditions.

xviii. Some of the early changes attributable to decentralisation are being achieved in parts of the AfDB’s operations which have traditionally struggled. In such cases small improvements arising from decentralisation are significant and provide something to build on. The evidence suggests that the benefits arising from decentralisation in different RMC operating contexts are starting to vary and that this variance will increase as the objectives of the MTS 2008-12 are pursued. To maximise the return on continuing investment in the decentralisation process, providing a more optimal set of costs and benefits in different client segments, the detail of the decentralisation approach going forward needs to be shaped more strongly by the medium term business objectives of the AfDB.

xix. For example, the AfDB is planning to significantly increase its activity and role within fragile states. We conclude that it is such environments where a suitably geared FO can make the most (marginal) difference. In countries eligible for ADF finance (non-fragile) the current gains that can come through a FO in-country will in future be able to be achieved in other more cost-effective

ways through increasingly harmonised approaches. Moreover, the movement of the Bank away from relatively small development projects to large infrastructure, more regional and Budget Support interventions will start to reduce the area of operations where FOs in-country do make a distinct difference.

xx. We see three broad options for the AfDB in continuing with a decentralised approach; (A) Continue on current course and at current pace, (B) Continue on current course but with an accelerated push to complete a fully functioning network and associated delegated authority, and (C) Adjust the course. Our first recommendation is that the *AfDB further develops Option C – a customised approach to FOs based on a model of three types of business unit servicing the different client segments of ADB eligible, ADF eligible and ADF (fragile state facility)*. On the basis that in the longer term this will provide a more optimal and sustainable set of benefits for the AfDB and its stakeholders than the present/ accelerated course looks set to deliver.

xxi. For many of the ADF countries where FOs now exist we see potential advantages of a graduation to a regional office model, with NPO outposts, closely aligned to the focal points of the regional economic commissions and the AfDB's multi-lateral partners. Co-locating in regional centres could facilitate more selective investment in the strengthening of its strategic partnerships. In ADB eligible countries the emphasis on private sector lending will continue to grow. This suggests advantages in a field presence that is designed and geared as a business front to resourced HQ capacity to manage large multi-partner transactions. Our second related recommendation is that in all cases there should be a *consideration of the extent to which decentralisation as one of the AfDB's instruments needs to respond to and help drive the accelerated delivery against the commitments of the Paris Declaration and the Accra Agenda for Action*.

xxii. We recognise that this course – a rationalisation and expansion of the existing FO network - will be more demanding as a process to plan and manage (than Option A or B) and that to date the decentralisation process has suffered from weaknesses in leadership and management, and that the varied and ambitious objectives of the MTS 2008-12 will place further demands on management resources. Therefore our two final recommendations are firstly; *establish a clear structure for management of the decentralisation process with clear accountabilities* which actively manages the challenges that changes proposed and brought through decentralisation place on the organisation, and secondly; *improve measurement of decentralisation* and the learning from the process through developing a clear results framework for a continuing decentralisation process within the MTS 2008-12 frame. One that looks out beyond AfDB to changes in the development status of RMC and progression of the aid effectiveness agenda.

1. Introduction to the Evaluation

1.1 Objective

1. In November 2008 the Committee of Operations and Development Effectiveness (CODE), approved a Concept Note prepared by the Operations Evaluation Department (OPEV), for an independent evaluation of the African Development Bank (AfDB) decentralisation strategy and process. The results of the evaluation to inform the mid term review of the African Development Fund (ADF) and the ADF replenishment discussions.

2. The evaluation focuses on the period from 2004 following Board approval (September 2004) of the ‘Proposed Strategy for the Decentralisation of the Activities of the African Development Bank Group’ (hereafter ‘Decentralisation Strategy’). It takes into account the evolution of strategic thinking within the AfDB on decentralisation both prior to and post the 2004 Strategy, the wider reforms of the AfDB and the direction set by the AfDB’s vision and Medium Term Strategy (MTS) 2008-2012.

3. The overall aim of the evaluation is to inform and strengthen the AfDB’s approach to decentralisation, through systematic assessment of the decentralisation strategy and early experience of implementation; how far the process has progressed against plan and the ‘results’ to date (see Annex 1 for ToR). The core evaluation questions relate to relevance, effectiveness, efficiency and management of the process. This provides the overall structure to the Report with a final concluding section on the extent to which the decentralisation process in its current form/ track looks set to contribute to the overarching goal of *enhanced development impact of AfDB resources*.

4. This Report is complemented by a more comprehensive Working Paper prepared for OPEV. This provides a more detailed account of findings, illustrated by examples of change, and a discussion on a set of ten substantive issues around decentralisation. The Working Paper also includes an extensive set of annexes and detailed referencing.

1.2 Methods, Evidence and Sources

5. To evaluate the moving target of decentralisation within the AfDB the evaluation team¹ (hereafter ‘the Team’) used a mixed methods approach; complementing an objective and formal organisational assessment (FOA) with use of the Most Significant Change (MSC) technique to bring out the human dimension. The overall design of the evaluation is described in the Concept Note. The Team visited eight countries², with preliminary findings informing the framing of a ‘Perception Survey which validated key findings, reaching out to a wider audience of internal and external stakeholders. An assessment of the costs of the decentralisation process and cost trends was made, and the AfDB experience benchmarked through recent reviews of the decentralisation of other comparable agencies. See Annex 2 for a report on the MSC process, Annex 3 for themes and issues in the MSC stories, and Annex 4 for the Perception Surveys Report.

6. The primary criteria for country selection (maturity of Field Office, funding eligibility, geography and language) provided an evaluation sample representative of the different country conditions across the 53 Regional Member Countries (RMCs) and the variation of operating models

¹ The evaluation team from the Performance Assessment Resource Centre (PARC) comprised of: Julian Gayfer (Team Leader), Dorte Kabell, Rick Davies, Matthew Crump, Juana Espasa, Ben Arikpo, Edna Elliot-McColl and Isabelle Lemaire.

² Countries sampled: Burkina Faso, Egypt, Ethiopia, Liberia, Nigeria, Senegal, Sierra Leone, Tanzania.

to 'Field Offices' (FO) that the AfDB currently deploys in its lending operations; Country Office (CO), Regional Office (RO) - serving the Country Office and other countries in the sub-region - and National Programme Office (NPO). The inclusion of Liberia provided an additional ADF country (fragile state) and also an example of a 'without field presence' case. See Annex 5 for the current servicing arrangements for RMCs and Annex 6 for RMCs eligible for the 'Fragile State Facility'.

7. To provide a spine to the evaluation, and a basis for compiling the evidence on effectiveness, a logic model of the Decentralisation Strategy was constructed by the Team drawing on objectives and performance measures from AfDB documentation (see section 4.1 for simplified version of the logic model). The model charts the expected progression from programmed inputs and activities, through outputs and intermediate outcomes to a projected longer term impact on the total AfDB operations and on the development process/ path in the RMCs. It also considers key assumptions on changes in the wider AfDB operation providing an enabling (internal) environment for effective decentralisation.

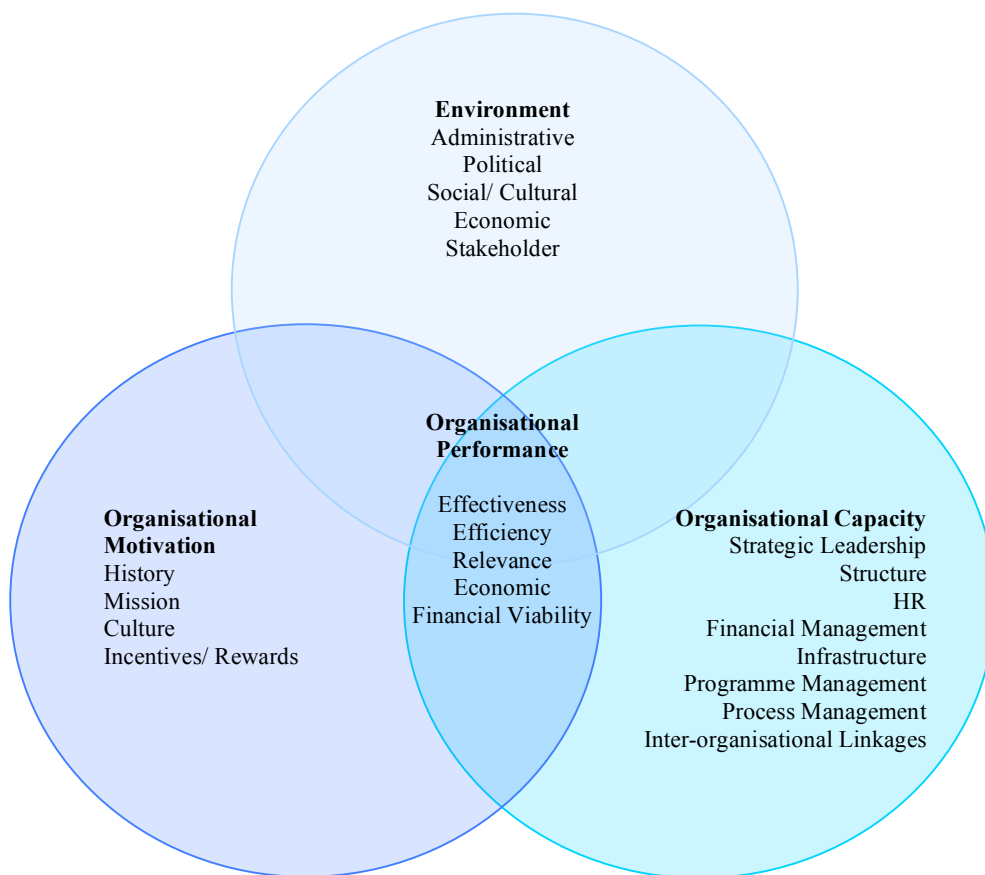
8. The performance areas within the model provided the focal point for the gathering of information. The Team drew from a variety of sources; (i) interviews with a wide range of AfDB field and Headquarters (HQ) staff, and with external stakeholders in-country, (ii) the country and HQ level selection process of 'most significant' stories of change³, (iii) a range of secondary information provided by the AfDB, (iv) primary data on the AfDB portfolio held on the SAP system, and (v) responses from the Perception Surveys. See Annex 7 for a listing of persons consulted and Annex 8 for a full bibliography.

9. The availability and quality of hard data held within the AfDB Monitoring Systems – a recognised concern within the Bank - has been a limiting factor for the evaluation. This has been compounded by the lack of rigorous monitoring and reporting mechanisms on decentralisation within management. In approving the 2004 Strategy and accompanying investment (estimated at 60m UA from 2004–2008) the Board directed Management to submit periodic reports on the impact of decentralisation. The Team has drawn on the July 2008 ORPC Impact Report which considered a smaller sample of RMCs and the continuing series of Status Reports prepared by management on the implementation of the Decentralisation Strategy.

10. The Team's analysis was guided by the Formal Organisational Assessment (FOA) framework (see Figure 1 overleaf) and its perspective on how the interplay between aspects of the external environment, organisation motivation and organisation capacity affect organisation performance. The Team also considered the nature of any improvement observed along the 'results chain' relative to the overall base position and targets of a Bank wide view. The latter provided the basis for a crude 'with and without' FO comparison on the working assumption that the effects of decentralisation would be more evident where there was an intensity of field presence as distinct from those RMCs served by a RO in a neighbouring country or an NPO arrangement or where the RMCs were still directly serviced by HQ. Throughout this evaluation the Team has tried to triangulate different sources of evidence. However, given the limitations in information and data, the judgements reached by the Team should be treated as indicative, and causal relationships as probable outcomes or inferences.

³ The results of the MSC exercise were fully documented on a blog (English and French versions) so that all staff within AfDB could view and comment on the 63 MSC stories that had been collected. Video summaries were also provided, along with summaries of discussions of the stories by the FO teams and four stakeholder groups in the AfDB Headquarters in Tunis. Whilst there was interest across the AfDB in viewing the source MSC material (both video and text format), the Comment facility was not taken up. The blog can be found at <http://decentralisingadb.wordpress.com/>. Access is password protected (password available on request).

Figure 1: Formal Organisational Analysis Framework



Source: Inter-American Development Bank

11. The Team has worked closely with and been guided by OPEV, and has benefited from the high level of interest on the ‘decentralisation issue’ running throughout the AfDB’s management and governance structures. The Team interacted with CODE and Management through informal briefing sessions at two milestone points in the process (see Annex 9 for Evaluation Timeline) and is grateful for the excellent cooperation that AfDB staff at the field and HQ levels have provided to the evaluation process and for the opportunities to engage in discussions with Members of the Board individually and collectively.

2. Context

Key aspects of the wider institutional setting which both pre-date and run through the Strategy period; the externalities of changing aid architecture, regional integration and internally a reforming and expanding AfDB.

2.1 Operating Context

12. It is important to recognise that the decentralisation process at the AfDB is unfolding within a dynamic and varied regional context. There has been an intensification of international attention on the particular problems facing Africa. Most notably the continuing high and pervasive levels of poverty with many countries remaining off track in their pursuit of national development goals aligned to the MDGs. The particular development challenges of post-conflict and fragile states have been recognised. In turn, there has been wide support from amongst the Bank's shareholders for the AfDB to develop in a way that allows it to increasingly deliver on its unique position in Africa and the development community; providing the convening platform for a stronger and more effective African voice in regional and global forums and taking the lead on continent wide initiatives.

13. Since 2000 there has been a significant shift within the international donor community to move towards a country led approach. This has been reinforced through the Paris Declaration on Aid Effectiveness – which the AfDB signed in 2005 - and more recently the 2008 Accra Agenda for Action. The attention of the donor community was initially focused on the principles of ownership, alignment and harmonisation and considerable resources, both donor and government time, have been invested in harmonising structures at the country level. The extent to which there has been change in the way in which donors have adapted their own ways of doing business has been patchy. More recently there has been a shift towards a greater attention on managing for development results (MfDR) and mutual accountability.

14. The period since 2004 has also been marked by a number of changes in the aid architecture. Overall the number and diversity of actors has increased with China and the Arab states emerging as important non-traditional donors in Africa. There has been a continued growth in vertical specialised global funds and major initiatives funded by private foundations. Many African middle income countries (MICs) have had improved access to the global capital markets at competitive rates and their demand for 'traditional' loans from International Finance Institutions (IFIs) has decreased in recent years. Indeed, the type of support now requested from the IFIs is changing.

15. The critical significance of the private sector to development effectiveness has remained a constant theme. Whilst foreign direct investment (FDI) flows to Africa have doubled in the three years from 2004-2007, the distribution of flows remains extremely uneven across countries and is likely to be compromised by the impact of global credit conditions. The scale of private sector provision and financing of infrastructure in Africa is small.

16. There has been a growing consciousness of the potential of Regional Integration and the role of the Regional Economic Communities (RECs). Future success in this area is seen as key in helping Africa to reposition itself as a more united and stronger entity at the economic, financial, social and technological levels, through better control of globalisation and its effects⁴. The New Partnership for African Development (NEPAD) has continued to promote a perspective of combining national

⁴ Closing statement by AfDB President, Dr D Kaberuka to the presentation by H.E. Abdou Diouf, AfDB Eminent Speaker Series Vol 1, 2006-07.

development actions with measures taken by the African Union (AU) and the RECs at a continental or regional level to improve results.

2.2 Corporate Goals

17. Decentralisation has also been carried forward within a rapidly evolving corporate context. The 2003-2007 Strategic Plan – the Bank’s first – centred operationally on greater selectivity, particularly at individual country level, with priorities of 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. Regional economic integration became a strategic priority in the 2005 update of the Strategic Plan and infrastructure projects, dominated by the transport sector, became the key element in a substantial growth over the Plan period in the AfDB’s multi-national operations. Subsequently the AfDB was assigned, through the NEPAD initiative, a lead role in infrastructure, financial and corporate governance. The forging of stronger partnerships with multilateral, bilateral and regional agencies was a core objective of the Strategic Plan.

18. To execute the Strategic Plan, the AfDB implemented a wide ranging and active reform agenda. Reforms were designed to; consolidate the internal controls which maintained the institution’s financial soundness and integrity and underpinned the AfDB’s reclaiming of its ‘triple A’ rating, address issues of historically poor portfolio performance and equip the AfDB for a significant expansion in its operations. In 2006 the Board approved major changes to the AfDB’s organisational 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 experience and improve project implementation; a Country and Regional Programmes and Policy Complex to develop country strategy and the programme budget, and two Sector Operations complexes to consolidate internal technical capacity and build greater professional depth in selected areas.

19. The AfDB’s own assessment is that delivery of the 2003-2007 Plan resulted in a small but not sufficient improvement in portfolio quality and knowledge generation and advice developed more slowly than expected. The reports of the ADF-II Deputies and the High Level Panel confirmed this general assessment and recommended greater selectivity, a focus on growth and regional integration, infrastructure, governance, skills and capacity building and private sector development, and with more emphasis to be given to addressing the needs of fragile states.

20. The MTS 2008-2012, through ‘*the Bank Group in 5 years*’ objective, responded by setting a challenging course for the AfDB with the 2012 vision of the AfDB being ‘*recognised globally, and by its shareholders in particular, as a preferred partner in Africa, providing high impact, well focused development assistance and solutions*’. Given the current base position of portfolio performance and the increasingly crowded field of financing for African development – realising this vision will require a significant step-up in all areas of the AfDB’s operations.

21. Improving responsiveness to and engagement in client countries, through a set of measures including effective decentralisation and reduced transaction costs is one of the ways (core commitments) through which the AfDB is planning to respond. Other key areas of emphasis for 2008-12 which the evaluation sees as having a major influence on shaping the fit between the approach to decentralisation and the AfDB’s corporate goals are (see Box overleaf):

MTS 2008-12 key areas of emphasis with implications for decentralisation

- Enhancing the focus and growth in infrastructure lending and regional projects through a stronger

22. The MTS 2008-12 includes indicative lending projections showing a substantial increase from 2853m UA (in 2007) to 5900m UA in 2012; with proportionate increases in ADB (private and public) and in ADF lending. The ADF-12 replenishment is assumed to be 50% higher than ADF-11. Lending increases are to be matched by an increase in the number of AfDB staff, rising from 690 (in 2007) to 1090 in 2012.

2.3 Benchmarking

23. Since 2000, in line with a country led approach, many agencies are decentralising their operations to move closer to their client countries and to develop harmonised approaches in the wider donor community.

24. There is no specific or ideal model for decentralisation to be used for the benchmarking of the AfDB. Each agency has a set of unique circumstances which needs to be responded to through a tailored path marked by specific policy objectives and actual decentralisation measures. There are however some broad commonalities in terms of shared goals of decentralisation through Country/Field Offices (alignment and partnership building, reducing transaction costs, optimising development effectiveness) which provide a sufficient basis for reflecting on shared experience. The Team focused its benchmarking reflection on the issues of; (i) costs, (ii) gearing for benefits, and (iii) managing change. The report makes references in sections 5 and 6 to lessons learnt within a number of comparable organisations including the Asian Development Bank (AsDB), the World Bank (WB), the International Fund for Agriculture Development (IFAD), and the International Finance Corporation (IFC). Many of these organisations have a maturity to their decentralisation which is greater than the AfDB and thereby provide a relatively rich source of reflection and learning.

3. Relevance

How the objectives and interpretation of decentralisation have evolved, the fit of the Decentralisation Strategy with wider corporate objectives and through this Africa's needs, and the dovetailing of the decentralisation process with AfDB's wider reforms.

3.1 Definitions of 'Decentralisation'

25. The term 'decentralisation' can have multiple interpretations. As a generic concept it reflects various forms of structural arrangements in organisations. As a process, decentralisation involves the transfer of authority and power to plan, make decisions and manage resources, from higher to lower levels of the organisational hierarchy, in order to facilitate efficient and effective service delivery⁵.

26. A fairly widely shared definition (see Box below)⁶ distinguishes between different modes of decentralisation.

Different Modes of Decentralisation

- **Delegation** – assignment of specific decision making authority - i.e. the transfer of managerial responsibility for specifically defined functions outside the normal bureaucratic structure;
- **Divisionalisation** – the division of the organisation into more or less autonomous strategic business units, as the business diversifies into new business, product or geographical areas
- **Deconcentration** – spatial relocation of decision making - i.e. the transfer of some administrative responsibility or authority to lower levels *within* the normal bureaucratic structure; and
- **Devolution** – transfer of responsibility for governing, understood more broadly - i.e. the creation or strengthening, financially or legally, of sub-national units of governments, whose activities are substantially *outside* the direct control of central government.

27. The early stages of decentralisation within the AfDB (and the intent of the 2004 Decentralisation Strategy) reflect elements of 'Delegation' and 'Deconcentration' modes. In 2004, decentralisation was synonymous with the opening of FOs to establish a country presence. FOs were effectively extensions (additions) to the normal management structure. In 2006, set within the package of wider institutional reforms decentralisation became synonymous with delegation of authority within a country focus perspective; the process of increasingly delegated authority to lower levels within the organisation and included FOs as an integral element of the core management structure. There is still no uniform understanding across the AfDB of what decentralisation is or can be, which has resulted in the term being used somewhat loosely without sufficient clarity on what is meant.

⁵ Ref. Smith 1985:1; Rondinelli 1981:137; Kiggundu 2000:89.

⁶ Ref. Found in Hicks (1961), Mintzberg (1979) and Rondinelli (1984).

3.2 The Decentralisation Strategy: Evolving Objectives

28. In September 1999 the Board of the AfDB adopted resolutions committing to a pilot on the establishment of a field presence in RMCs through FOs. This involved three National Offices and one Regional Office⁷ and a limited mandate on supporting project implementation⁸.

29. In 2002 an assessment of the pilot experience and the situation facing the AfDB in Côte d'Ivoire led to a resolution on accelerated institutional decentralisation and preparation of the 2004 Decentralisation Strategy. The Strategy set out the establishment of a network of FOs in RMCs with the mandate of FOs extended to include country dialogue.

30. The key objectives of the Decentralisation Strategy were 'to be closer to the client base and to more effectively participate in the countries' development efforts'. To achieve this, management approved a gradual and flexible approach to decentralisation, which:

- Emphasised national offices rather than regional ones, but did not exclude the latter in a few selected areas.
- Would establish new offices where the institution's strategic interests and country needs coincided and at a pace consistent with the AfDB's capacity to set up such offices effectively.
- Aimed to progressively delegate real authority to the field; tailoring the level of delegation to the number and calibre of staff available at each office and with an initial emphasis on project execution (loan effectiveness, procurement and disbursements activities) and in a second stage on strategy preparation, portfolio development and selective project supervision.

31. The identified advantages of this approach were that the country offices would move beyond a traditional representative function and offer the real possibility of strengthening strategic partnerships and better managing the project cycle, with positive effects on client satisfaction and the quality of the portfolio.

32. In 2006 the wider set of institutional reforms were introduced. In July of the same year a set of proposals for an 'Enhanced Decentralisation Strategy: Strengthening Country Focus and Client Responsiveness through a Tailored Approach' (hereafter 'EDS') was presented by Management to the Board. The proposals were discussed, but not formally approved. Despite the absence of a formal Board approval, the 'whole Bank approach' to decentralisation, encompassing the original driver of 'field presence', became the operating norm (see Box for key contents of the EDS).

⁷ Nigeria, Gabon, Ethiopia & Egypt; collectively known thereafter as Batch 1.

⁸ This reflected a tentative re-engagement with decentralisation given the AfDBs earlier mixed experience with field offices in the 1980s–mid 1990s. During that time offices were seen as a means to improve portfolio performance. This was later reinforced by a security dimension, spreading the risks during the troubled times in Côte d'Ivoire. Following some apprehension over governance the offices were closed and a period of centralisation followed under a reform programme led by the incoming President.

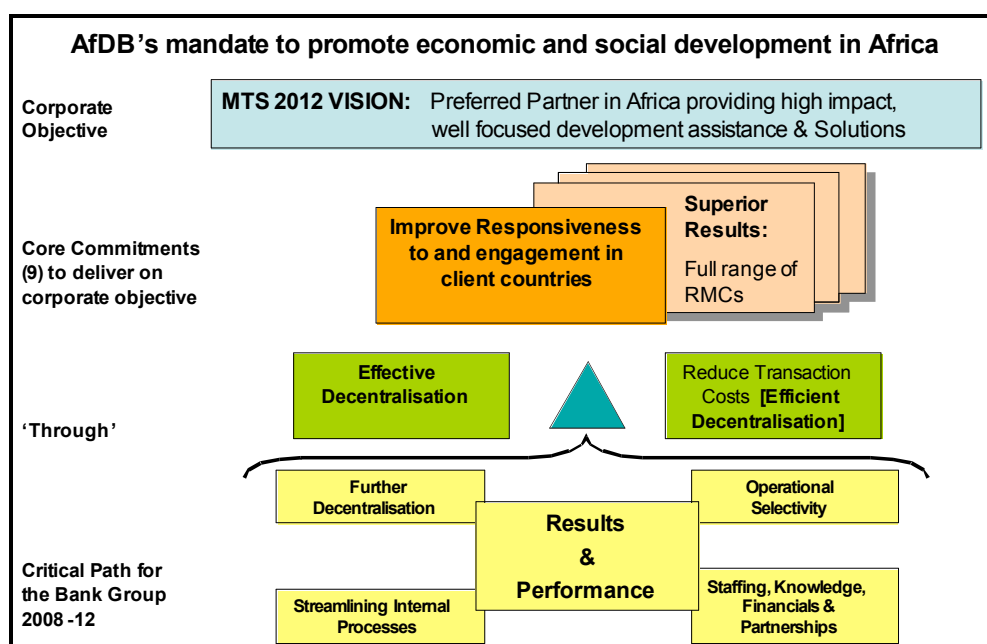
Key Contents of the Enhanced Decentralisation Strategy Proposal, 2006

- Tailored and more empowered approach to AfDB representation in RMCs
- RR position transformed into Country Manager
- Optimal fit of FO staffing with AfDB Strategy, priorities and portfolio
- As required, more senior and international professional staff transferred to FOs
- Increased delegated authority to fully operational FOs (ITC set-up, staff at post)
- FO may request increased approval authority for up to UA 2m
- Regional Offices to recruit quality staff from the region in addition to HQ staff
- FOs to be equipped to support specific needs of programmes in fragile states

3.3 Relevance to Corporate Goals

33. More recently the extent to which decentralisation is leading to an improvement in the effectiveness of AfDB as a development agency has become the key concern with effective decentralisation a cornerstone for delivery on the vision set out in the AfDB Medium Term Strategy 2008-2012 (see Figure 2⁹ below).

Figure 2: The AfDB Group in 5 Years



34. The AfDB has a vision of decentralisation for 2012 'to leverage field presence to deliver outstanding results for our client countries'. The Bank is planning to decentralise further, intensifying efforts to ensure the full effective integration of field with central offices, further tailoring staffing to meet country specific circumstances, and ensuring that lead responsibility for key tasks is given where it makes most sense, including transferred to field-based officers. It is

⁹ A schematic representation of the positioning of decentralisation within the trajectory of the MTS 2008-12.

envisaged that further decentralisation, including an increase in the number of offices and extension of their remit, will be proposed by management in the light of evolving needs, opportunities and accumulated experience.

35. The broad theory of change or rationale underpinning the AfDB's approach to decentralisation has remained constant throughout the period being evaluated. Stated at its simplest; *investment in decentralisation will establish a more effective field presence. This in turn will enhance the AfDB's development effectiveness and impact, contributing to sustained and cumulative benefits in regional member countries.* The documentation reviewed by the Team in constructing the logic model and more detailed 'Results Chains' suggests that the long-term objectives of the AfDB for its decentralisation process have been clearer in terms of institutional outcomes (e.g. possibility of higher ADF replenishment, enhanced AfDB franchise value) than in terms of how intermediate outcomes will translate through to longer term development outcomes in RMCs.

36. The 2009 Regional Integration Strategy foresees the FOs playing an important role in helping to programme, coordinate and monitor implementation of regional operations. The Strategy outlines the AfDB plans to strengthen the capacity of the regional offices with the placement of Regional Integration experts.

3.4 Objectives Shared with Other Reforms

37. Decentralisation plans were designed to complement and to leverage other reforms in the AfDB. In 2006 a series of institutional reforms designed to improve effectiveness were initiated (see Box), some of which were directly aligned to the strengthening movement on decentralisation.

Institutional Reforms for Development Effectiveness and Managing for Results

- Comprehensive review and streamlining of business processes
- Comprehensive review of internal resource allocation and budget processes
- Improvements to project design, project implementation and monitoring
- Strengthened ADF-11 Results Framework with clear targets
- High quality results frameworks integrated into Country Strategies
- Regular supervision and improved access to the Portfolio Management System
- Procurement and financial management capacity built in FOs
- Mandatory completion of supervision reports and PCRs within fixed timetable
- Transfer of supervision and more decision making responsibility to the field
- Fully harmonising procurement rules and practices with those of the World Bank

Source: Extracted from ADF-11 Deputies Report, Jan 2007

38. As a managed activity decentralisation now lies at the heart of the AfDB's response to the Managing for Development Results (MfDR) agenda. Accelerated decentralisation is one of the three pillars of the AfDB's (2008) Action Plan for MfDR¹⁰. 'Accelerating decentralisation for better results on the ground' and 'instilling a results oriented supervision culture' are seen as key thrusts towards increased agency effectiveness.

¹⁰ The other two pillars are; promoting international partnerships on results and building country capacity to manage for results.

3.5 Conclusions

39. The broad scope and expectations of decentralisation have continued to evolve in step with the wider set of corporate objectives and evolving external environment. Effective and efficient decentralisation is centre stage to the realisation of the 2012 vision of the MTS 2008-12. There is no uniform understanding across the AfDB of what is meant by decentralisation, yet.

40. The detail of the Decentralisation Strategy has been responsive to the changes in the external environment originating in the Paris Declaration process. With the – post Paris - interpretation of a country led approach, the AfDB has taken a path similar to that taken by other agencies, and one consistent with the major thrusts of the 2003-07 Strategic Plan.

41. The important shifts in emphasis within the MTS 2008-12 (including areas such as knowledge services, regional integration, deeper engagement in MICs and fragile states) are reflective of a stronger statement and carving out of the Bank's comparative advantage. There has not been a formal re-assessment of what this means for the detail of decentralisation required to support the role that the AfDB is seeking to fill at the continent, region and national level.

42. There is a clearly stated broad logic to the AfDB's decentralisation; the link between a more effective field presence and enhanced development effectiveness of the AfDB and impact, contributing to sustained and cumulative benefits to RMCs. The exact cause and effect steps in the results chain to achieve this have not been fully articulated, in particular how intermediate (institutional) outcomes will translate through to longer term development outcomes.

4. Effectiveness

An account of the achievements of the decentralisation process in terms of reach and operations, investments made, extent to which outputs have been delivered and progress made towards a set of development and institutional outcomes. Provides an overall assessment of how decentralisation within the AfDB is set to contribute to improved agency effectiveness (*enhanced development impact of AfDB resources*).

4.1 Overview

43. A key question for the evaluation is the extent to which the objectives of the Decentralisation Strategy are being realised? The evaluation teams judgement on this is developed though considering evidence looking across Bank operations for the different levels within the logic model (see Table 1 below) of the AfDB Decentralisation Strategy; inputs/ costs, activities/ outputs, then outcomes and impact pathway.

Table 1: Logic Model Representation of the Decentralisation Strategy

| | |
|---------------------------------------|---|
| Goal: | Agency Effectiveness – Enhanced Development Impact of Bank Resources |
| Impact: (longer term) | Adoption of sound economic policies by RMC Increased scale, value and quality of Bank Group operations |
| Outcomes: (medium term) | Higher portfolio quality: Improved execution of projects/ programmes Improved client satisfaction: Reduction in projects with poor outcomes Increased lending volume; public sector and private sector |
| Purpose: | <i>‘Strengthening country focus and client responsiveness’</i> (2006 EDS). |
| Outputs: | Quality assured project processes Greater understanding of the country’s particular needs and circumstances Improved public posture of the Bank in-country Improved donor coordination Closer partnerships with regional economic entities |
| Inputs/ Activities: (major) | Establishment 16 new FOs; two phases, end 2006 (total to 23), extended to 25 Investment/ FO (est.) of UA 420,000 Set-up and UA 660,000 annual operations Tailored staff complement of international (incl. HQ transferred) and local staff Increased delegated authority when FO fully operational – IT set up certified |

4.2 Status (end 2008)

44. The Decentralisation Strategy set out a course for the establishment/ operation by 2006 (earliest) of 16 new FOs in RMCs, taking the total to a targeted 25 (23 COs and 2 ROs) when combined with offices established under the earlier pilot. By April 2009 there were 22 FOs - 18 COs and 4 ROs – operating. This is set to increase to 24-25 offices by the end of 2009. There have been delays in the

opening of the Angolan and Algerian FOs; Host Country Agreements (HCAs) have only been recently signed. Following the relocation of the AfDB to the Temporary Relocation Agency (TRA) in Tunis activities to open the Country Office were put on hold. In November 2008 the Board approved the establishment of a further FO in South Africa. The signing of the HCA is in process.

45. The plan of the AfDB in 2004 was to have over 90% of the AfDB's portfolio (in lending terms) covered by the operations of FOs. By 2008 FO operations for RMCs in the form of Country Offices (COs) directly covered 67% of the AfDB's portfolio in volume terms. This figure increases by a further 3% with the addition of those RMCs served by a Regional Office, and by a further 0.5% for those RMCs served by a National Programme Office (NPO). The programmed opening of FOs in Angola, Algeria and South Africa in 2009 will extend this further. Much of the 10% of the portfolio designated as multi-national projects is active in RMCs covered by the FO network.

46. The AfDB works in the client segments of MICs (eligible for ADB funding), Less Developed Countries (eligible for a blend of ADF/ADB funding), and Fragile State (eligible for ADF funding and Fragile State Facility). The coverage of RMCs served by an FO in-country is proportionally higher in countries eligible for ADF resources (over 60%) than in countries eligible for ADB resources (around 30%). There are currently FOs in-country in 5 of the 20 countries classified by the AfDB as Fragile States (i.e. eligible for the Fragile State Facility). A further two fragile states are covered by Regional Office operations. AfDB management have submitted a proposal to the Board for the opening of a new FO in Liberia.

4.3 Inputs

47. The AfDB has not been able to reach full operational status across the network within the time period planned. Important gaps in staffing and Information and Communication Technology (ICT) set-up/ functioning remain.

48. Despite a number of positive steps there is a continuing lag and apparent hesitancy in meeting the tailored arrangements for FO staffing and small offices lack a critical mass of professional staff. To meet the MTS 2012 commitment of 45% of Bank staff in the field a rapid step-up of staffing largely through relocation of Tunis staff will be needed in the next three years. This will be challenging based on current practices of allocating new posts and deployment of HQ staff to FOs.

49. The skills mix of FOs is not tightly related to the portfolio. There is some evidence of the AfDB adjusting the configuration of the staffing from the standard 'minimum staffing' template to one that is more tailored to specific needs. Whilst 'one size fits all' was not the declared policy the uniformity of staffing that characterises the current situation suggests that it may have become the practice at one point in the roll out of decentralisation.

50. The original plans for placing experienced procurement and disbursement officers in the FOs have not been met. Recruitment is now underway for placing experienced procurement and financial management officers in a number of hub locations. There are issues concerning the appointment of the Country Resident Representatives with not all having gone through the same selection and recruitment process

51. To date there has been no graduation of fully operational FOs (certified as having the commensurate ICT infrastructure) to a higher level of operating authority. Some small improvements in ICT have provided useful quick wins to FO operations and responsiveness. Further work is required (and is planned for 2009) to improve the 'fit' of the ICT arrangements.

4.4 Implementation: Activities and Outputs

4.4.1 Portfolio Management

52. Three key areas of portfolio management activity were targeted through the 2004 Decentralisation Strategy; procurement and disbursement, project supervision and follow up actions, and preparation of PCRs with learning feeding improved operations and strategy. These areas were all given renewed emphasis through the 2006 EDS with an additional related activity of ‘driving portfolio clean up efforts’. More frequent project reviews were expected to be undertaken which, in conjunction with increased dialogue with implementing partners, would improve delivery through an ‘Output’ of **quality assured project processes**, reflected by improvements in key areas relating to speed/ frequency and accuracy.

53. FOs are generally making a small (not yet significant) difference to the problem of slow **disbursement** and cumbersome **procurement processes**. The letter box function of the FO with the non-objection authority still resting at HQ is constraining potential gains. This is compounded by the current limited thresholds for FOs¹¹. This suggests that even with the improvement trend continuing, the overall marginal gain to total AfDB operations is likely to be relatively small given the current thresholds and the movement of the AfDB to funding larger projects and focusing on infrastructure where procurement and disbursement transactions are typically much larger. With the Accra Agenda for Action and the commitment to use country systems, the Bank will need to seriously consider how it might better support strengthening of national procurement systems.

54. The performance of formal **project supervision** in the AfDB remains unsatisfactory with only small improvements in recent years. Problems are compounded by the fact that beyond periodic supervision missions, the performance of other supervision instruments, such as Quarterly Project Reports, is low. There has been a small improvement – but not general or large – in the frequency of supervision through FOs. Bank wide increased supervision has not been targeted at projects at risk and projects in fragile states are visited less often.

55. There is some confidence within the AfDB that the quality of supervision has improved as a result of the FOs. The perceived reluctance within the AfDB to transfer Task Manager responsibility to the sector experts at the FO is seen as constraining the realisation of full benefits. FOs are playing a problem solving role in project implementation through the establishment of a dialogue with project execution agencies and relevant ministries¹². This is seen as complementary to the formal supervision missions still dominated by HQ staff (a fact valued by FO staff and clients). Gaps appear in terms of the follow up on recommendations from supervision missions where there is still limited involvement of local AfDB staff.

56. Across the Bank, supervision is still generally experienced as an event rather than a continuous process. It is expected that this is something that will change with an increasing role of the FOs in the supervision process but to date the supervision process has not fully adjusted to the matrix structure.

57. The completion of **Project Completion Reports (PCRs)** has been a persistent issue for the AfDB and a weak link in project supervision and lesson learning improving project quality at entry. As the number of total AfDB operations has increased the back-log of PCRs has grown. This evaluation found no data on the extent to which FOs have completed PCRs. Through the new funding initiative

¹¹ The UA 50,000 for procurement reflected 33% of the number of all transactions in 2006 but only 2% in value. For disbursement, the threshold of UA 100,000 represented 70% of all applications but only 6% in value terms.

¹² The Bank has a large number of PIUs. This is inconsistent with the commitment in the Paris Declaration and the Accra Agenda for Action.

(the PCR Fund) there are positive examples of FO staff from one country being part of PCR exercises in another country, with the host FO providing the supporting platform¹³. This offers an efficient means of increasing the throughput of PCRs with wider benefits of building the capacity of field based staff.

58. A number of FOs have engaged in activities designed to *clean up the portfolio*. These exercises have provided early wins to portfolio improvement through a reduction in the number of projects at risk.

4.4.2 Country Dialogue

59. The Decentralisation Strategy targeted three areas of activity on country dialogue; dialogue with RMC on development policy, with national counterparts on (sector) strategy and with local partners (including private sector and civil society) on development issues. The centrality of the FOs to the AfDB's Country dialogue was reaffirmed through the EDS with the aspect of project governance (accounting and fiduciary responsibilities) being given clearer visibility. This set of dialogue activities was expected to produce an Output of a **greater (shared) understanding of the country's particular needs and circumstances** reflected through key indicators for engagement and dialogue with government, other national partners, donors and regional organisations.

60. This evaluation found no strong evidence to suggest that decentralisation is having an appreciable effect on the nature of the *dialogue with RMCs on development policy*. The dialogue on development policy is still largely project driven and intermittent. Country visits clearly demonstrated how FOs recognise the need to engage in country dialogue forums and have participated, but rarely taking a leading role. Weaknesses in Economic and Sector Work (ESW) due to a lack of resources to conduct local studies are a constraint. The potential marginal gain – through FO directed sectoral and thematic studies - in increasing the relevance of the Bank AfDB portfolio to country needs, is likely to be higher in fragile state contexts where project pipelines are expected to expand more rapidly.

61. The activity area of *dialogue with national counterparts on (sector) strategy* also appears weak. This evaluation found little evidence of resultant changes in the contents of the portfolio, which would involve a more strategic perspective than references to individual projects. This reflects a wider problem, which the AfDB is addressing, of the Country Strategy Papers (CSPs) being too broad a document to guide any sharper dialogue and Strategies being weakened through poor monitoring.

62. The main lines of the AfDB's operations in an RMC continue to run between the delivery of individual projects and Headquarters. There have been some local initiatives through the FO to facilitate reflection and lesson learning which could inform a stronger sector dialogue but this does not appear to be the norm. FO staff are participating in RMC or donor forums and in some cases are leading or chairing thematic or sectoral groups. However, we found no strong evidence to suggest that these forums are providing a strong mechanism for the AfDB to bring its own distinctive and informed perspective to dialogue with Government at the sectoral or macro level.

63. *Dialogue with local partners – including those outside of government - on development issues* did not come through strongly in this evaluation despite the primary purpose of the FOs including the facilitation of contacts between the AfDB and the Governments, the private sector and civil society. In particular we found no evidence to suggest that decentralisation has accelerated the AfDB Group's engagement in RMCs with the private sector. The AfDB's private sector work is

¹³ Account of recent PCR exercise in Eritrea involving a staff member from Sudan.

largely based on deals developed through the private sector unit based at Headquarters and through deals made with clients in North America, Asia and Europe. Realising the potential for private sector lending to increase in those RMCs eligible for ADF finance would be dependent on competent experts being appointed in the FOs with responsibility for private sector investment.

64. Overall there is a common sense of decentralisation being instrumental in the continuing process of an improving relationship of AfDB with RMC governments (often working from a low base). This includes the suggestion of more regular engagement with higher levels of government office. The consequences of a change in the AfDB/RMC relationship are still not clearly evident and we can expect this to take some time to work through. There was a notable absence of any stories about the Bank taking a more challenging position to government vision and policy - is the government going in the right direction? Stories on dialogue with other development partners dominated.

65. Whilst there is some movement towards AfDB clients making the FO the first port of call for issues with the AfDB portfolio, old habits die hard. It seems that where clients are still tied up with HQ based task managers they are ready to continue that link 'because of familiarity and more speedier responses'. Some external stakeholders voiced concern over the ability of the FO staff to consistently have enough information on the issues the projects face and as a result of either information to hand or the authority to operate to be able to offer any significant action to resolve issues.

4.4.3 AfDB Public Profile and the Wider Donor and Institutional Landscape

66. Investment through decentralisation in the activity areas of portfolio management and country dialogue was also expected to lead to outputs of an **improved public profile of the AfDB in-country** and **improved donor coordination**.

67. This evaluation found a number of examples of FOs improving public knowledge and opinion of the AfDB through local initiatives. There is evidence of the AfDB being more responsive to the local donor landscape in framing its engagements with increased AfDB visibility at country level providing more opportunities to participate in joint approaches. FOs can play an important role in the AfDB's participation in processes of donors harmonising around a funding opportunity. The evaluation suggests that in those contexts (such as fragile states) where typically the donor landscape is less congested, the potential catalytic role of the AfDB, through its field presence, in leveraging resources of other donors is likely to be more pronounced and locally significant.

68. There are divergent views within the organisation on the extent to which decentralisation has facilitated the AfDB delivering on its commitment to the Aid effectiveness agenda¹⁴. FO establishment has provided an appreciated and important visible element to the corporate response to the Declaration principles of ownership, harmonisation and alignment. The FO enables the AfDB to be a local player in the dialogue and structures of harmonisation and it is seen as bringing some benefits in terms of local knowledge sharing, especially where aid harmonisation structures in RMCs facilitate this. However decentralisation (including FOs) has not yet had any significant effect on the harder hitting principles of managing for development results and mutual accountability, which are more likely to challenge the ways in which the AfDB (and others) conducts business.

¹⁴ In general it is recognised that the AfDB still has a long way to go in terms of delivery on the spirit of Paris Declaration (Ref. Multi-lateral Development Banks Common Performance Assessment System 2007 Report) and the strengthened commitment of the Accra Agenda for Action.

69. It can be questioned whether decentralisation is helping or hindering the move from the AfDB’s procurement regulatory framework to the countries regulatory framework. In the short term there is clearly a need to get the AfDB’s own processes working more efficiently. In fragile state environments the opportunity for AfDB to use national procurement and public financial management systems even in the medium term are severely limited. In such contexts, the application of the AfDB’s procurement standards and the training of implementing partners in these could be expected to have a beneficial effect (indirectly and in the longer term) in terms of demonstrating practices of transparency and governance and facilitating the integration of standards into a reforming public administration.

70. From 2006 it was expected that FOs would be instrumental in the AfDB **forging closer partnerships with regional/sub-regional organisations responsible for promoting economic integration** and through this allowing the AfDB to play a greater role in the promotion of regional integration across Africa. This evaluation’s findings suggest that decentralisation has in general had no wide-scale effect. The AfDB is clearly set on working more closely with the RECs and the potential role of the FOs in taking forward this corporate agenda is recognised and planned for. This may require some form of regional placement of experts to support the FOs.

71. One area of a regional approach where the presence of FOs does seem to have had a clear positive effect is in the identification and implementation of multi-national projects, particularly those on regional transportation.

72. Table 2 (below) provides a summary of this evaluation’s assessment of Outputs achieved. Table 3 (see overleaf) provides a summary assessment, based on the evidence reviewed, of the extent to which we see an improvement in key activity areas in those countries with FOs, how this relates to an AfDB wide baseline position and therefore the potential significance of any observed improvement judged to be attributable to decentralisation.

Table 2: Summary of Achievement of Decentralisation Strategy Outputs

| Outputs of the Decentralisation Strategy | Assessment: Extent to which output achieved |
|--|--|
| <i>Primary Focus</i> | |
| Quality assured project processes | Partly achieved |
| Greater (shared) understanding of the Country’s particular needs and circumstances | Partly achieved |
| <i>Secondary Focus</i> | |
| Improved public profile of the AfDB in the country | Largely achieved |
| Improved donor coordination | Largely achieved |
| Closer partnership with regional economic entities | Partly achieved |

Table 3: Summary of the effects evident within selected AfDB operations in RMCs with FOs in-country

| Activity Areas | Operation | Baseline position | Widespread improvement evident | Potential significance of field presence to improvements |
|-----------------------------|---|-------------------|--------------------------------|--|
| Portfolio Management | Procurement and Disbursement | High | Yes | Low |
| | Project supervision and follow up | Low | Yes | High |
| | Preparation of PCRs | Low | No | Low |
| | Driving Portfolio clean up | Medium | Yes | High |
| Conduct of dialogue in RMCs | Dialogue with RMC on development policy | Low | No | Low |
| | Dialogue with national counterparts on (sector) strategy | Low | No | Low |
| | Dialogue with local partners (including private sector and civil society) on development issues | Low | No | Low |
| | Dialogue with local partners (other development agencies) | Low | Yes | High |

4.5 Progress towards Outcomes

73. The previous section has been able to report on achievements given progress evident in targeted performance areas (activities to outputs), however it is too early to report conclusively on progress towards outcomes (see earlier Logic Model). This section draws on the limited evidence of change that is available at the outcome level and relates progress to the wider expectations of the AfDB in terms of the speed of transformation in its operations.

74. The theory of change implicit within the AfDB's 2004 Decentralisation Strategy is that effective field presence and delegated authority within the organisation will, in concert with wider changes and reforms in the AfDB, contribute significantly to higher portfolio quality and client satisfaction. The Team reviewed progress towards outcomes, through a set of performance measures, in relation to the two areas of; (i) faster project operations, and (ii) increased quality of the country portfolio. Linked to (ii) was the expectation that decentralisation would be instrumental to the AfDB achieving an increase within RMCs (with FOs) in public and private sector lending. Key findings are given below.

4.5.1 Faster Project Operations

75. The decentralisation process within the AfDB is off-track in terms of the degree of change achieved by 2009 (against expectations) in the speeding up of project operations. This is explained by the delays in reaching full operational status of the FO network and the hesitancy on delegation of authority within management structures.

76. A field presence for the AfDB can be instrumental in realising a significant improvement in the lead time for loan effectiveness (getting close to the targets that AfDB has set itself). This

improvement is not automatic and is dependent on the nature of the tripartite relationship (FO, HQ and Government) concerned.

77. Decentralisation has to date not been a significant factor in the steps the AfDB has taken to steadily improve its disbursement rate. The front end operation of FOs in the disbursement process has (after an initial lag) generally accelerated entry into the chain of approvals at HQ.

78. The personal contact provided by the FOs has had a beneficial effect in the efficiency of procurement transactions that remain within the jurisdiction of the delegated authority to FOs. The importance of this gain will vary with the operating context; higher in fragile state environments where RMC capacities are weak and lower in ADB (MIC) lending where there are greater capacities and typically much larger transactions.

4.5.2. Increased Quality of the Country Portfolio

79. The decentralisation process is on track in some important areas of change associated with increasing portfolio quality and falling short (i.e. off track) in other key areas. Overall the trend is positive but not sufficiently complete nor aggressive.

80. Field presence through Country Offices can be an important element for accelerating a reduction in the proportion of Projects at Risk (PAR). This is likely to be a stronger factor in those countries eligible for ADF finance – where reducing the number of PARs to targeted levels has proved particularly challenging - as opposed to those eligible for ADB finance, where the major gains have been largely achieved either prior to the field presence of the 2004 Strategy or at a time when the proportion of RMCs with FOs was low.

81. Decentralisation within the AfDB does not yet show any signs of leading to a more pro-active and demanding style of portfolio management which would be reflected in an increase in the rate of project cancellations for aging and/or non-performing projects. Interestingly, AfDB’s partners within RMCs tend to perceive a stronger association between decentralisation on the one hand and improvements in the quality of the portfolio on the other, than the reality may suggest.

4.5.3 Increased Lending Volumes

82. Field presence has been a contributing factor to the AfDB significantly increasing its lending volume. This effect has been most pronounced in RMCs eligible for ADB (public sector) finance (see Table 4 below). Gains have also been made in RMCs without FOs. Together, increased Government requests for financing in ADB countries have reversed the trend in the ADB loan portfolio. To date there has been no appreciable effect of decentralisation on increasing private sector borrowing.

Table 4: Trends in the value of AfDB portfolio; sub-sample of countries with FOs.

| Performance indicator | 2005 | 2007 |
|---------------------------------------|---------|---------|
| Volume of new loans for ADB countries | 549.5m | 1161.3m |
| Value of the ADB countries portfolio | 2,050.4 | 2881.2 |

Source: Table 2, ORPC Impact Study, 2008

83. Table 5 (overleaf) provides a summary of our assessment of progress to date towards Outcomes and our judgement on the relative significance of decentralisation to any progress being made at this level.

Table 5: Summary: Achievement of Progress towards Outcomes

| Outcomes of Decentralisation: | Assessment: | Assessment: |
|---|--|--|
| Targeted intermediate outcomes within RMC operations with/ covered by Field Offices | On track/ off track in terms of meeting expectations on desired state by early 2009 | Relative importance of the Decentralisation process to the progress made towards outcomes |
| Faster project operations | Off track – positive direction | High |
| Improved quality of the country portfolio | Off track – positive direction | Low – too early to say |
| Increased lending volume | Broadly on track | Positive factor |

4.6 Impact Pathways

84. It is too early to expect to see clear evidence of the kind of broad impacts set out in the logic model – improved development outcomes for RMCs and an allied continent wide change in the scale, value and quality of the AfDB’s business.

85. In an attempt to correlate any observed changes of faster project operations and increased quality of the country portfolio to a trajectory of improved development outcomes, the Team used the lens of the AfDB’s ratings for Portfolio Performance; a composite of Implementation Progress (IP) Index and an index for Likelihood for achievement of development objectives (the DO Index). This analysis – there are limitations in terms of the quality of the data on which it has drawn - suggests that:

- Decentralisation has a positive effect on implementation progress but this effect is small and takes time to work through, becomes clearer and stronger as the FOs mature, and relates to a relatively low base position across the AfDB operations (‘compliance is satisfactory’).
- A FO in-country is not a pre-requisite for realising a significant change in improved portfolio performance in terms of the likelihood of a project achieving its development objectives.
- A field presence in a country is not a sufficient condition for increasing the likelihood of the project portfolio achieving development objectives.

4.7 Counterfactual evidence

86. Given the pervasiveness of the Decentralisation Strategy across the AfDB’s field operations¹⁵ and within the operational complexes, the evaluation has not undertaken a formal counter-factual. The inclusion of Liberia in the evaluation sample provided an example of a country where the AfDB has recently (from 2006) started up operations and conducted its business with no in-country presence¹⁶. Some support has been provided through the FO in Sierra Leone but this has been constrained by pressures on staff time in Sierra Leone. The overall sense is that this arrangement, operating in a challenging environment, has resulted in:

¹⁵ Of the 47 RMCs currently borrowing from the AfDB, 13 are served by non-FO arrangements (of which 2 will complete the opening of FOs in 2009).

¹⁶ The Field Office in Sierra Leone has a supporting role but this is constrained by the pressures on staff time in Sierra Leone.

- Limited understanding amongst stakeholders of the AfDB – how it works, what its objectives are, what its key drivers are;
- Limited understanding of the AfDB’s Decentralisation Strategy/ process;
- Mis-/poor communication with the AfDB;
- Limited presence – no visibility; limited leverage;
- External stakeholders finding the relationship with AfDB via the Sierra Leone Field Office difficult due to lack of responsiveness/ delays;
- Lack of shared responsibility and accountability when AfDB surrenders its decision making authority to donors in-country.

4.8 Conclusions

87. There are recognised weaknesses in the availability and quality of operational and financial data within the Banks systems. This, coupled with the relative immaturity of decentralisation within the Bank, means that in many areas, and particularly as we move up the results chain, the evaluation can only draw causal inferences rather than attribute.

Status; coverage and inputs

- The AfDB is close to meeting its target of having 25 established FOs. The proportion of the portfolio covered by the FO network remains high at 81% (with the inclusion of multi-national operations). Fragile states are the client segment with least coverage by in-country FOs.
- The AfDB is behind schedule in having a fully operational FO network. There are critical gaps in staffing and IT set-up. Small offices lack a critical mass of professional staff. To meet the MTS 2012 commitment of 45% of AfDB staff in the field a rapid step-up of staffing, largely through relocation of Tunis staff, will be needed in the next three years

Implementation: Activities & Outputs

- Field presence has resulted in an improvement to important activity areas of portfolio management. In some cases (project supervision and follow-up, and portfolio clean-up) this development is regarded as significant given the poor ‘base’ position of the Bank.
- Field presence has made a small marginal difference to the way in which the Bank conducts dialogue with RMCs. The way in which the AfDB conducts its business has remained relatively unchanged, with institutional reforms yet to work through to the point where they significantly impact on staff behaviour and the culture of the organisation.
- The Decentralisation Strategy has yet to complete delivery of its targeted primary outputs; (i) quality assured project processes (*partly achieved*), (ii) a greater (shared) understanding of the country’s particular needs and circumstances (*partly achieved*).
- More progress can be seen in the secondary and more limited aspects of the Strategy; namely, (iii) improved public posture of the Bank in-country and (iv) improved donor coordination. In both cases the positive perception of external stakeholders to the difference field presence has made may be more important than the reality.

Implementation: Outcomes

- Decentralisation has not yet fulfilled its potential to deliver on the AfDB's specific aim of *a greater emphasis on achieving project results*. The confluence between the AfDB's focus on development results – there since 2002 but since 2007-08 being increasingly hard wired into the agency – and decentralisation is in sight rather than a reality.
- The AfDB remains off track in terms of the desired level of improvements re. faster project operations. Whilst the trend is positive (e.g. speed of loan effectiveness) the pace of change is constrained by the conflicting views and forces within the Bank on what is decentralisation,
- The AfDB is moving in a positive direction but is off track in terms of pace and coherence to increased quality of the country portfolio. Decentralisation (Field presence plus Delegated Authority within Bank structures) has not yet had the bite that is required if the desired step change in the quality of the country portfolio is to be achieved.
- Overall, we found little evidence to suggest that decentralisation within the AfDB is having a big effect on sharpening the relevance of AfDB assistance to country needs. To date the structures and patterns of behaviour through which the AfDB operates provide (in practice) only a minimal role for the FO in shaping the size and nature of the portfolio.
- Whilst some form of field presence is proving important to strengthening the relationship with the RMC, the consequences of a change in this relationship are still not clearly evident. Whilst we can expect these to take some time to work through, the absence of any stories about the Bank taking a more challenging position to government vision and policy (is the government going in the right direction?) is notable. Stories on dialogue with other development partners dominated.

Impact Pathway

- There is no clear evidence – and it is too early to expect this – of the current model of decentralisation together with wider Bank institutional reforms leading to an enhanced agency contribution to RMC development outcomes.
- Decentralisation has been a positive factor in the growth in scale and net value of Bank operations achieved in recent years.
- Decentralisation is a positive and essential factor in meeting the AfDB's broad aim of *strengthening and accelerating the AfDB Group's responsiveness to client countries priorities and needs*.

5. Efficiency

A review of the costs of the decentralisation process (incurred and projected). An assessment of cost-effectiveness, considering outputs delivered and longer term benefits.

5.1 Costs

88. Our assessment of costs has been based on the information (budget and expenditure) supplied by the AfDB for the period 2004-08, and our interpretation and extrapolation. We have considered; (i) the set-up capital costs of the FO network against expectations, and (ii) the costs and savings of decentralising, tracking possible increase in operating costs at FOs and decrease of cost at HQ (around service areas, through changing staffing patterns and reducing back office functions through delegation etc). Our enquiries were hampered because actual budget utilisation is not systematically monitored, aggregated and reported ex-post by various activities. Whilst they may still be some gaps in our figures (all given in Units of Account – UA) we are confident of the headlines that have emerged from our analysis.

5.1.1 Capital costs

89. Our calculations show that the total resources invested (UA million) in the set-up of the FO network since 2004 (5 years 2004–2008) has been 7.7m UA; this includes 2.59m UA for ICT set-up. This capital figure is indicative given that other costs such as initial training of FO staff are not visible and have not been accounted for.

90. Assuming that the bulk of the set-up costs incurred relates to the establishment of the 16 new FOs targeted in 2004, the average set up (initial investments) cost is 0.485m which is only slightly higher than the average figure of 0.418m originally specified within the Budget assumption for the Decentralisation Strategy and re-affirmed in the EDS.

91. The figure of 7.76m represents a significant underspend against the budget figure of 13.71m (based on an aggregation of the annual budget figures over the five year period). The original ‘global budget’ figure for the set-up of the FO network was 9.6m UA.

92. Given the prevailing gaps in completeness amongst the 23 FOs we estimate that average capital costs of the FOs will increase to exceed 0.5m (approximately 20% over the original estimate). This assumes that current expenditure on ICT set up equates to 70% of what will be the final ICT set up cost.

5.1.2 Running costs

93. Over the five year period (2004-08) the total expenditure on FO network running costs has been 51.85m. This figure relates to all costs incurred directly by the FO (Administration costs). Any related costs to Country Operations through HQ supplied services are unaccounted for. HQ Departments maintain a general operating budget with no line items for FOs so the costs of decentralisation are not kept in one reporting department therefore it is difficult to see the full picture.

94. The figure of 51.85m compares to a budgeted 69.44m (based on an aggregation of the annual budget figures over the five year period). It is assumed that annual budgets have been set based on the sequencing of fully geared (i.e. complete) FOs in line with the originally planned phasing of the establishment of FOs (re-set for each year ahead).

95. The 2004 Decentralisation Strategy costing assumption was an average annual operating cost of 0.657m. The administration cost figure for 2008 of 23.33m (corresponding to 23 established but not yet fully complete FOs) suggests a true annual operating cost of over 1m/FO and likely to be increased further by costs associated with a fully geared FO operation. This assumes current expenditure on staff equates to 80% of what will be the final staff element of FO running costs.

96. The original global budget for one operating year of the FO network was 15m. Given the above the final cost of a fully operational FO network is expected to be an additional 70%-100% over that originally estimated.

97. Anecdotally there are no reports of any cost savings arising within HQ as a result of the FO network. HQ Departments have maintained the same travel budgets (felt to be commensurate with a growing overall portfolio) and FO staff still travel to HQ. It was expected that ‘considerable savings¹⁷’ from reduced travel costs across the HQ departments would arise through FOs receiving a higher level of delegated authority. This graduation of FOs has not happened.

98. The total additional annual costs to the Bank of operating through a decentralised model will include associated HQ on-costs however this element is likely to be off-set by the growth of the overall portfolio that the AfDB is now servicing.

5.2 Cost effectiveness

99. The levels of achievement (outputs of the Decentralisation Strategy) compared with the AfDB’s expenditure to date on the decentralisation process inevitably raises some concerns over cost-effectiveness. Whilst, there have been some areas of inefficiency (e.g. weak forward planning on buildings to house the FOs leading to additional costs incurred), the more significant issue has been the failure to get the FOs fully geared more quickly (i.e. appropriately staffed with the required infrastructure, resources and authority). This has meant that the potential of immediate gains through a decentralised approach (evident from the analysis in the effectiveness section) has not been fully realised. The AfDB is not currently getting the full value from the capability it has already invested in, in establishing the FO network.

100. The experience of many similar organisations shows decentralisation involving the establishment of field/ regional offices being associated with a general increase in overall running costs. Increasing the development effectiveness of operations and cutting costs of operations are not necessarily compatible. Moreover efficiency gains within Headquarters are not automatic and are seen as requiring deliberate action. Where decentralisation procedures are implemented correctly, an increase in costs can prove to increase organisational output and performance however, realising the full benefits of decentralisation is likely to require substantial incremental budget outlays. One measure taken by the Canadian International Development Agency’s (CIDA) after it had embarked on a major decentralisation of staff in the 1980s, and concerned with rising costs, was to embark on field presence more selectively in a limited number of countries.

5.3 Outlook

101. It is plausible that some of the early gains arising through decentralisation might have been achieved more cost-effectively through other means i.e. without the considerable expense of establishing and operating the network of 25 FOs. Options for consideration could have included

¹⁷ Highlighted in the EDS costing assumptions which matched the original 2004 assumptions.

more delegated authority within existing and or more streamlined management structures, outsourcing of selected support functions, using internal teams to trouble shoot poorly performing portfolios and/or on-site temporary teams to fast track programme clean-up and/or development in difficult environments, more harmonised working with other agencies including sharing of in-country resources.

102. Field presence is changing the nature of the relationship between the AfDB and the RMCs. There is enough evidence to suggest that with all the elements in place the current configuration of FOs can translate through into some valuable improvements in portfolio quality and development outcomes as well as continue to be a positive factor in the growth of AfDB lending. By looking at the sub-set of the 13 countries taken in the 2008 impact study and crudely apportioning allied costings from our analysis it can be inferred that the increase in value of new loans of UA million 611.8 across these countries has cost an actual value of UA 26.19 million in administrative costs and a capital budget cost of UA 8.33 million for the period 2005 to 2007.

103. This all suggests that relationship management aligned with the AfDB business goals of a bigger and stronger contribution to the development paths of RMCs demands an operation for the AfDB that involves some form of effective decentralised field presence serviced by HQ. This is reinforced by the commitments of the Paris Declaration and by what we observed as the limitations of no field presence. The question for the AfDB going forward (explored further in section 7) is, building on the investments already made in decentralisation, what approach will give optimal cost-benefits given wider demands on management. For example under what set of conditions will an investment in a full in-country FO be justified through predicted immediate and longer term significant gains. A rough analysis of available cost information suggests that the annual operating cost to the AfDB of a country serviced by its own FO compared to a country serviced by a Regional Office structure is effectively double.

104. Our enquiries have also pointed towards an added value of in-country presence for the AfDB. As one respondent commented; *‘after FOs have been set up, the countries start to understand the role of the AfDB... indeed this process, has one way or another, enabled the integration of the AfDB into African countries, which have started to see the importance of the AfDB in terms of developing our continent’*. Aggregated across the continent and strengthening the unique position of the AfDB, this may prove to have a valuable indirect but cumulative wider effect on improving development outcomes.

5.4 Conclusions

105. There has been a consistent annual underspend on decentralisation. The capital (set-up) and running (operating) costs of the decentralisation process have been less than annually budgeted for over the period 2004 to 2008. This protracted nature of the decentralisation process has been the key factor.

106. The final costs for the set-up of the network of FOs are predicted to be close to that originally budgeted for. We expect annual operating costs to be up to double that originally estimated with no or very limited cost savings at HQ. The additional costs of decentralisation are common across agencies.

107. Overall there is sufficient evidence to suggest some clear advantages to being present locally. The benefits, both in the immediate and longer term, from the present course, are difficult to quantify given that the decentralisation set out in the Strategy has not yet been put in place. There is a case - building on the investments already made in the decentralisation process - to consider

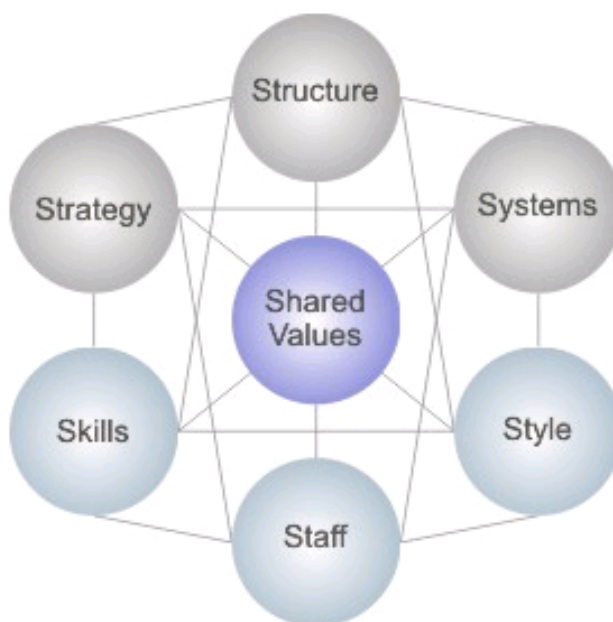
adapting the existing FO formula in a way that may provide a more optimal set of costs and benefits.

6. Managing Change

Considers how well the decentralisation process has been managed, how the change has been measured and structures for accountability, control and delegation. Positions decentralisation within ongoing wider reforms and the challenge of sustaining change.

108. Management theory conveys the inter-dependencies between different dimensions of an organisation and the way in which the ‘fit’ between changing dimensions needs to be continually tracked by management. McKinsey’s 7S Model (see Figure 3 below) provides a useful framework through which to explore how decentralisation embedded within the ‘whole Bank approach’ was both managed as a process and continually adjusted to act in sync with wider reforms.

Figure 3: The McKinsey 7S Model



6.1 Managing the Decentralisation Process

109. A Permanent Committee for Field Offices (PECOF) was established in 2004 under a Presidential Directive and charged with supervision of the opening and operationalisation of the new FOs. This role was endorsed within the 2006 EDS. Resident Representatives were expected to report directly to PECO during opening and set-up. By 2007 the activities of PECO had in practice fallen away although there is no document formally dissolving the PECO. Its role was neither extended nor formally replaced in terms of a structure that could manage the decentralisation process in the round (i.e. FOs and the delegation of authority within the organisation).

110. The 2006 Task Force on Institutional Reforms whilst calling for PECOF to be the focal entity responsible for FO operationalisation also refers to the strengthening of links of FOs to the operations complexes. To a certain extent that has happened but in an informal manner and this has left a managerial and accountability gap around decentralisation seen in an operational perspective. The Decentralisation Working Group (DWG), established in 2008 as part of a wider set of reform initiatives and responding to mounting internal pressure for improved coordination on operational matters, proposed the revamping of PECOF and the preparation of new ToR in its '10 Point Action Plan for Decentralisation'. The DWG continues to play a role, without a formal status. The mandate, status, membership and authority of these two committees need clarification if they are to play an effective role in the decentralisation process.

111. There has been a lack of clear leadership and drive to decentralisation at the strategic and operational levels; covering the top of the AfDB, the Country Team, and Resident Representatives. The President of the AfDB has demonstrated strong ownership and commitment to decentralisation and has communicated this commitment in various ways. However, there was unanimity among interviewed staff both in the field and at HQ, that there was a vacuum at the next level where there should have been a strong person or team to drive the agenda and lay out clearly the 'how, who, where and how much'. The EDS proposed that the drive for the roll out of precise staffing requirements for decentralisation would come from the Regional Departments.

112. The Strategy identified a number of internal challenges it foresaw would need to be actively managed as the process unfolded including discomfort among some managers with a model, which emphasised experimentation, evaluation and adaptation rather than a uniform approach. More recently there has been recognition of decentralisation as a change process that needs to be actively managed in order to manage the risks of not reaping the full benefits. An example of the tensions and misunderstandings that can arise is the recent assimilation of national experts (recruited by the FOs) into the sector departments. This can be felt as a centralising pull rather than consistent with decentralising, or as one respondent commented, *'emptying the decentralisation objective of its substance... a step towards the ...AfDB management making the FOs a kind of mission control for the actions of Task Managers and their departments'*. Experience from other agencies shows that not recognising (or managing) decentralisation as a key element within a wider change process has been a common issue.

6.2 Measuring the Change

113. In 2003 the ADF introduced a results measurement framework. Initial efforts to take this forward under the Strategic Plan 2003-07 proved complex and unwieldy. The ADF-10 agreement included adoption of a detailed results matrix but this too faltered in respect to effective implementation and mainstreaming into Bank operations. A review in February 2008 identified three areas of the Bank operation seen as critical for a stronger results focus including *'more effective and thorough decentralisation'*¹⁸. A set of institutional internal reform indicators for ADF-11 were identified to allow management and shareholders to monitor progress in these areas in order to strengthen delivery of results.

114. Within the above context monitoring of the effects of implementation of the Decentralisation Strategy has been un-integrated and patchy, with minimal follow through on an initial indicator set. As a result there has been a weak control mechanism against which to judge the success of decentralisation. A number of internal documents on implementation of the Strategy and

¹⁸ The other two areas are; an increased capacity to harmonise in line with Paris Declaration goals, and more systematic managerial-level engagement.

assessments of effectiveness have been produced since 2004 but the value of these has been limited by the availability of robust data, and the absence of an institutional structure that has been able to consistently analyse feedback information to management so that effective strategic direction could be given.

115. In measuring change a stronger emphasis on development results is required. Recently introduced performance indicators stop short of measuring development results and focus instead on lending volume, disbursement, and various measures of portfolio management, mainly related to problem projects. However, disbursement rates are a significant lagging indicator of potential results, but not a measure of actual results. PCR coverage is a good indicator of what knowledge the AfDB may have on project results, but does not tell you what these results are.

116. A strong systematic learning culture on decentralisation across the AfDB has yet to emerge. To date the decentralisation process can be characterised as a series of multiple ongoing experiments. One of the examples of such small experiments is where decisions have been taken to appoint a task manager within the FO, and to let the FO lead supervision missions; important steps in the delegation of power from HQ to FOs. These decisions were not mandated, they were local decisions based on local assessments of needs and capacities, heavily influenced by the HQ and FO experience of working with each other. Monitoring these many small experiments, to work out where and why they are working, will be an important resource of learning for the AfDB in charting its course on decentralisation.

6.3 Accountability, Control and Delegation

117. Ineffective cascading of results expectations from AfDB strategic objectives to FO operations has led to incomplete measures of performance and weak accountabilities. AfDB management are not providing sufficient clarity to staff and FOs in articulating the AfDB's mandate and the role of FOs in delivery. Individuals within the AfDB's Departments and Groups are responding to decentralisation and the evolving mandate very differently. There are different perceptions of what it means, different ways of engagement, and mixed responses reflecting varying degrees of enthusiasm and openness to change. This has provided considerable space for local interpretation, particularly by Resident Representatives (RR), the role of the RR and the FO not being sufficiently clear to ensure a degree of commonality and common standards and producing an unevenness across the FO network.

118. Strong staff have taken this space to take initiative and move things forward; an important potential outcome of decentralisation that needs to be monitored, and encouraged through publicising of useful initiatives. The direction taken may not always be in a direction that HQ may feel fully comfortable with or one that strongly reflects corporate priorities. Weak staff take the space and do very little. The incentives from HQ to reward strong staff are not clear.

119. In 2006 there was a proposal to transform the position of Country Resident Representative into the Country Manager position. This has not been formalised, although a recent update note on the status of decentralisation from management uses this term. There remains an ambiguity over who manages and who is accountable, who is responsible for the delivery of the AfDB assistance to the RMC.

120. The matrix structure was introduced in 2006 with the clear intention of strengthening the AfDB's country focus; virtual Country Teams became, thereafter the central operating unit. Given the size and history of the organisation, it is to be expected that such a change would take time to be fully understood, developed and adjusted as learning takes place, however, as with decentralisation,

it seems the process was not managed as a change process, was not well communicated and insufficient attention was paid to getting full buy-in from all quarters. The result is that the matrix is still perceived to be confusing, that the dual reporting system introduced to address some of the issues has not yet helped, and that the Delegation of Authority Matrix while clarifying some reporting lines has not brought the necessary clarity. There is a widely shared perception that a disconnect exists between Country Team, Vice Presidents and the Resident Representatives and their teams.

121. The chequered history (1990s) of past experience with FOs loomed large in the minds of many interviewees and may be at the root of some reticence in parts of the organisation to execute the Decentralisation Strategy more aggressively. Given changes both in the external environment and in the AfDB's own control environment and organisational capacity we do not see the risks (then/now) as being completely comparable. We are not aware of any major cases of misconduct within FO operations since 2004. This suggests that the control structures that are operating are proving effective in managing the risk to AfDB operations and its reputation. Some staff raised a concern over the lack, at central level, of an inspection function for FOs, similar to what most bilateral donors have for their embassies. The role of that unit would be to complement the audit and ensure the maintenance of certain standards, conduct 'fit for purpose reviews' and ensure a solid control environment.

6.4 Coordinating Decentralisation and other Reforms

122. Implementation of the Decentralisation Strategy has been undertaken during a period of intensifying reform activity and change within the AfDB. Much of the reform agenda has been focused on improving performance of the AfDB's portfolio. The package of institutional reforms which started in 2006 was premised on bringing change through a set of management measures in four related areas of the management of AfDB operations¹⁹ within which immediate reform activities were identified including those directly labelled as decentralisation (e.g. increased field presence through 25 FOs being opened and operational). Whilst such actions were formalised and resourced within the 2006 package of institutional reforms, many of these built on threads of activity running back to 2004 and in a number of cases such as with increased field presence, even further back to 2000.

123. The conceptualising of the decentralisation process and its fit with wider institutional reforms was good at the outset and the inter-dependencies are well appreciated across the organisation. However there has been limited reflection and adaptation of the Decentralisation Strategy as the wider reform process has unfolded. Decentralisation has not been able to influence the sequencing nor nature of other ongoing reform processes. Whilst reforms are all broadly aligned this has led to inefficiencies. Other agencies have experienced similar issues. The strongest symmetry between decentralisation and wider AfDB reforms has been evident in the areas of human resource management. The weakest areas have been in business processes and IT.

124. A steady series of **Human Resources** (HR) reforms (many of which are not directly concerned with decentralisation or the setting up of FOs) are showing positive effects. However, weaknesses in the coordinated action on establishing FOs exacerbates the frustrations felt by locally engaged staff in terms of their situation compared with international and HQ staff. Whilst much has been done to make local staff feel part of the AfDB, particularly through the benefits package, there

¹⁹ Quality of operations at entry (9 management measures), timeliness of loan effectiveness and project start-up (4 measures), speed of implementation of the project (6 measures), and the enhanced supervision of project operations. The APPR 2006 listed 23 immediate measures ('reform activities') listed in APPR 2006 to be instituted in the areas of HR, business processes, budgeting to improve 'portfolio performance'.

remain a number of unresolved issues between local and international staff such as career development and training. Recent moves to attach national sector staff to their sector units in HQ may help address these issues, but is also raising other issues in terms of the dual reporting relationship, equal pay for equal work etc.

125. There have been some clear positive changes in terms of more delegation to Resident Representatives. However some RRs still wish for more authority and feel they are only given authority for ritual things such as loan signing which nevertheless do provide an example of a cost saving and effectiveness enhancing measure as it means government teams do not have to travel to Tunis any more.

126. The incentives for staff to go to the field are also weakened by what we see as an unclear career path for FO staff. It has not been demonstrated that a field position is an advantageous career move and thus many staff will prefer to stay in HQ where they have more visibility and hence perceive bigger chances for promotion.

127. Overall our findings suggest that the AfDB may in fact not yet be getting the full benefits of the HR reforms already enacted as staff performance is still constrained by low morale. There are cases of where ineffectiveness in opening of the offices has jeopardised staff morale; it took too long to recruit, train, send staff on orientation courses, provide them with their benefits etc and all this negatively affected staff morale. The effect is a tendency for staff to see the glass half empty, something that needs to be redressed.

128. The AfDB's *business processes* are continuing to be adapted to accommodate decentralisation. Much of this is work in progress, largely driven by a desire to reduce congestion at HQ as opposed to the use of country systems in a Paris Declaration sense which may call for more of a radical re-engineering approach. Some relocation of staff and some redistribution of tasks between field and HQ have taken place, possibly resulting in a decrease in transaction costs.

129. In some cases, responsibility has been given to FO, but then an additional step has been made to the front end of processes. There is a saving in that it is made easier for HQ, but it is unclear to what extent transaction costs are actually being lowered (real costs) at HQ as a result of the FO staff involvement. For example with disbursement decentralisation has proven initially to be less efficient as a result of the lag (at times not sufficiently well managed) between introduction, implementation and actualisation of systems. Over time our evidence suggests that the disbursement system with a FO front end works well processing what is currently a throughput of relatively small, low value transactions.

6.5 Sustaining Change

130. We found across the HQ staff a growing recognition of the value of the FO and trust in their capacity. In some cases this has been fostered by the success of initiatives taken by the FO and reflected in HQ staff's willingness for the FO to take the lead, or be responsible for, various activities that were HQ led before. Specific examples include negotiating new projects, leading supervision missions, taking responsibility for training and increased local spending limits. These are forms of voluntary rather than mandated decentralisation. They are the product of local judgements of the success of the new kinds of relationships and trust being forged between HQ and FO.

131. Growing the trust will be a key factor in sustaining change. Some FOs have recognised trust building as a process that needs to be worked on and will take time and in one case have developed their own communication strategy for dealing with HQ, to build trust and cooperation with the FO. These examples raise the possibility that other mechanisms of trust building may exist and could be used more widely and intentionally. Recognition is also important at an individual level, one respondent commenting that; *“pay is secondary to professional satisfaction. The country office is asking me to lead a team with people from HQ. If the head office thinks I’m capable to lead a team on the ground and come up with a result it gives me more satisfaction”*.

132. The pull towards a ‘One Bank’ ethos is strong within the FOs and a dynamic that can be more actively embraced and capitalised on by HQ. This is continuing to be strengthened by the resolution of a number of issues including employment terms and conditions. For example; the inclusion of FO staff in the AfDB’s pension scheme, inclusion in the health insurance scheme and proposed eligibility for the same education benefits. In turn this creates a positive environment for the development of cooperative and synergistic working relationships between staff in the FO and in headquarters, allowing new ways of working to be developed.

133. Empowering staff especially within the FOs is indispensable for them to play their role fully. The consistency in signals that management convey is important; FO staff who are more proactive are sometimes perceived as mavericks rather than strong leaders. Wider experience suggests that the conditions for success (of decentralisation) are less dependent on small variations in the decentralisation models but substantially dependent on the management culture prevailing in the headquarters of the organisation. A culture of management for results and a decision making process that encourages delegation and rewards taking measured risks are regarded as important pre-requisites for success of decentralisation.

6.6 Conclusions

134. The process has been held back through a lack of clear strategic and operational leadership for decentralisation within the AfDB structures (senior management, country team and FOs) and the absence of systematic approaches to monitoring and reflective learning. Weak cascading of results expectations from AfDB strategic objectives to FO operations is leading to incomplete measures of performance and weak accountabilities. The platform for a more results oriented approach to monitoring decentralisation, nested within the wider agency results framework now exists

135. Decentralisation has not been actively managed as the change process which it is. This would have seen issues such as the lack of a strong shared understanding within the AfDB of what decentralisation means (opening of FOs and/or Delegated Authority) and concerns over the perceived inconsistency between the Delegation of Authority Matrix (responsibility for workstreams) and the Country Team operation (a core element of the AfDB’s matrix working structure) being confronted more head-on by management and tackling the apparent confusion that exists over who is responsible for what.

136. Within this complex of reforms the benefits arising from decentralisation are dependent on both achievement of specific outputs and outcomes of the decentralisation process and other key assumptions on wider sets of changes arising from internal reforms and supportive conditions holding. The AfDB is not yet getting the full benefit of HR reforms – already enacted and generally well aligned with decentralisation - given some inconsistencies and gaps which serve to undermine the many positives. Changes to business processes are being unconsciously driven by an HQ-centralising view and not appearing open to consideration of the needs for re-engineering that

would emerge from a perspective of servicing a decentralised approach in a way that is also consistent with the aid effectiveness agenda.

137. There is an inevitable – and at times uncomfortable – tension, between the diversity in local directions that decentralisation brings and the resultant unevenness across the AfDB, with the desired moves for a higher degree of corporate standardisation. The ‘one AfDB’ ethos is a strong positive force which decentralisation has strengthened. This provides a good platform for developing new ways of AfDB working.

7. Overall Conclusions and Recommendations

138. Decentralisation within the AfDB is a moving target and touches on a complex set of intertwined issues embedded in wider institutional reforms. This has presented a challenge for the evaluation, one that has been compounded by two other factors; the approach envisaged in the Decentralisation Strategy has not yet been fully implemented and the limited quality and availability of strong data sets for key progress indicators.

7.1 Major Findings

139. The decentralisation process is behind schedule. Whilst nearing completion in terms of the number of FOs opened, there are some significant gaps in terms of the planned FO network operating at full capacity (sector specialists in the field, delegated authority and ICT connectivity).

140. The objectives of the Decentralisation Strategy were clearly expressed and have continued to evolve in line with growing expectations over what decentralisation will deliver for the AfDB. There has not been sufficient clarity on the causal connections through which the objectives are to be achieved, nor a clear ‘results framework’ providing a comprehensive set of targets against which progress can be assessed.

141. Overall the objectives of the Decentralisation Strategy are being partially achieved:

- There is clear evidence of change in some important activity areas associated with improving portfolio management through field presence but this is not yet sufficiently strong nor widespread to deliver quality assured project processes.
- There has been no significant change in the nature of the dialogue between the AfDB and the RMC. The proximity of FOs has brought a change in the frequency and responsiveness of dialogue – two important elements in the long term process of building trust – however, the dialogue has yet to mature to a more challenging form which would have an appreciable effect on improving development outcomes.
- Decentralisation is improving the visibility of the AfDB within the national setting and within the donor coordination landscape.
- There has been a minimal effect in terms of the AfDB strengthening its ties with regional economic entities and its links with the private sector and civil society.
- Decentralisation is proving to be a positive factor in the growth of the lending volume of the AfDB, particularly in those countries eligible for ADB funding. The evidence is not sufficiently strong to establish causality and increases are likely to be the result of a combination of factors.

142. The AfDB’s effort to establish FOs has been generally well appreciated by external stakeholders and there are strong centres of enthusiasm for decentralisation, and further decentralisation, within the AfDB, its clients and partners.

143. The final costs for the set-up of the network of FOs are predicted to be close to that originally budgeted for. We expect annual operating costs to be close to double that originally estimated with no or very limited cost savings at HQ.

144. There are clear immediate advantages to having some form of field presence in RMCs and the promise of stronger development results through a higher performing portfolio. Decentralisation is neither complete nor mature enough to provide evidence at this stage of any benefits at scale. At this juncture we see a case for the AfDB to adapt the existing FO formula (building on the investments already made in the decentralisation process) in a way that will provide a more optimal set of costs and benefits in different client segments.

145. The Decentralisation Strategy has been an ambitious undertaking and has coincided with an intense period of wider reforms within the AfDB. Together, this has placed considerable demands on management which, despite considerable efforts, have not been fully met. One key area of weakness has been in maintaining a ‘whole view’ on decentralisation – making sure that small things do not undermine big gains – and in ensuring consistency and coherence between the wider AfDB reforms and decentralisation. Decentralisation has not been actively managed as a change project in itself or as part of a wider change process.

146. The set of challenges and issues the AfDB has confronted in delivering its Decentralisation Strategy are common to the experiences of other comparable agencies. For example; decentralisation is associated with increased costs, efficiency gains are not automatic, weak monitoring of the process and results of decentralisation, decentralisation not recognised (nor managed) as a key element of a wider change process.

7.2 Benchmarking

147. Our overall finding that decentralisation in the AfDB is having some positive effects is one that concurs with the findings of other agencies, the benchmarking study²⁰ (IFAD 2007) concluding that *the development effectiveness of field presence is viewed positively by all comparator organisations – in spite of numerous challenges and associated costs.*

148. Other generalised findings from recent reviews of the evaluation experience of other agencies which resonate with the challenges and opportunities that AfDB now faces are:

- FOs have a higher success in bringing projects out of the ‘at risk’ category. Field presence from a neighbouring country works well for project implementation issues.
- If the benefits of investment in decentralisation are to be realised through the provision of a higher level of service delivery (i.e. additional and emerging services and functions), FOs must be fully resourced (balancing staff provision and delegated authority) and client expectations carefully managed.
- Flexibility is regarded as essential in order to find appropriate answers to different and changing contexts – with respect to structures, staffing issues, locations, distribution of responsibilities. Diversity is also reflected in the shaping of the structures of FOs. In particular, it is important to use multiple approaches to field presence to respond to different contexts.
- Whilst some form of local presence in a client country is desirable, small FOs are likely to have insufficient economies of scale to meet reasonable cost efficiency and productivity requirements. Sub-regional hubs provide a means of conveniently and cost-effectively extending the reach of the agency through small satellite offices managed by local staff. Other forms of local presence such as co-location with other donors can also be considered.

²⁰ Ref. Evaluation of IFAD’s Field Presence Pilot Programme July 2007.

149. We are not aware of the AfDB directly picking up on the learning from other agencies in ways which may have accelerated their own trajectory on decentralisation.

7.3 Main Conclusions

The conclusions drawn below are centred on the role of the decentralisation agenda in improving the AfDB's performance and effectiveness.

Relevance

150. The FOs have made the AfDB more tuned in to the country situation and are providing a platform for shaping the role of the AfDB, developing partnerships, and being relevant. The FOs have also strengthened the AfDB's ability to meet specific needs, such as speed in MICs and flexibility in Fragile States.

151. Decentralisation is now an integral part of how the AfDB conducts its business it is also a given – in some form - for an agency operating in the post Paris world²¹. The commitment within the MTS 2008-12 to '*the strengthening and accelerating of Bank Group responsiveness to client countries priorities and needs*' also requires some form of decentralisation.

Effectiveness

152. The hypothesis and expectation is that decentralisation will enhance agency effectiveness. The delegation of authority should lead to the right decisions being taken by the right staff at the right level and in a timely manner, thus enhancing each project's chances of reaching its development objectives, portfolios being tightly aligned to clear needs and the Bank's comparative advantage, and an active and influential dialogue on development policy.

153. While our enquiries point towards confirmation of the above hypothesis, there is insufficient hard evidence to prove that given the gains (current and expected), the current approach to decentralisation represents the most effective investment of AfDB resources in order to strengthen development results. To try to do this would require a wide ranging and methodologically complex analysis of the portfolios in countries with and without FOs.

154. What is clear is that there is a clear frustration at field level with the degree of authority given – a sense that the full benefits of decentralisation are not reaped, because the delegation is not deep enough, because too many decisions still need endorsement from HQ.

Efficiency

155. Efficiency measured as the extent to which projects have achieved their goals with less input, for example with less or cheaper supervision, also needs data that the AfDB does not currently have.

²¹ Continued moves to be closer to the client are the conclusion, at a general level, of the recent Phase 1 Evaluation of the Implementation of the Paris Declaration. A key finding of which was that "*Among donors, the changes in regulations and practices to delegate greater authority and capacity to field offices have been the most important enabling conditions for successful implementation*".

156. The issue is whether staff are posted where it makes most sense, reducing processing time and steps, reducing carbon emissions due to less travel, using cheaper local staff where possible. No analysis seems to have been made in the AfDB of possible financial implications and knowledge management implications of using more national staff. Such an analysis would be a worthwhile complement to the present evaluation.

157. Decentralisation is (as planned for) an additional cost. Set-up costs have kept close to that originally budgeted. Running costs of FOs are proving greater than anticipated. From the available cost data we have been able to interpolate – as economies of scale would suggest – that servicing the operations of RMCs through regional office structures is considerably cheaper than establishing a FO for one country. There is a trade-off in terms of the better communication between AfDB staff and Government staff that a FO presence in-country allows.

Sustainability

158. There is still some distance to travel before the AfDB has a fully functioning network of 25 FOs supported by a coherent set of delegated authorities across and through its management structures. To complete this journey in a way that will provide fully geared field operations and through this allow the full benefits of the current decentralisation model to be realised will place demands on an organisational capacity that already looks stretched in terms of adapting to the multiple demands and high ambition of the MTS 2008-12. This will also require an intensifying of what is an ongoing change in the culture of the organisation. Put together, managing such a change will be intensive of management resources in the short term. This could lead to a situation where the professional centre of the AfDB is diluted in areas which may compromise the leadership position it is currently taking or aspiring to at the continent level.

Impact

159. We are still early in the process of decentralisation and the model has not yet been fully implemented so it is premature to expect results at the outcome and impact level of the Strategy itself. However, there are enough positives in the AfDB's recent experience with decentralisation to suggest that the potential for impact is there. Some of the early changes attributable to decentralisation are being achieved in parts of the AfDB's operations which have traditionally struggled. In such cases, small improvements arising from decentralisation are significant and provide something to build on. Decentralisation is contributing to the corporate goal of increasing the scale and value of AfDB operations. To maximise the return on continuing investment in the process, the detail of the decentralisation approach going forward needs to be shaped more strongly by the medium term business objectives of the AfDB.

7.4 Moving forward: Recommendations

160. The evaluation suggests that the current approach to decentralisation is delivering some benefits; the scale of these limited by both the shallowness of decentralisation across the AfDB in terms of delegated authority and the delays in the FO network becoming fully operational.

161. The general environment remains highly supportive of some form of decentralisation. The current geography and resource allocation of the FOs is strongly aligned to 'a FO in every ADF eligible country' path and in many ways this would seem to be the natural path for the AfDB to follow, driven by strong political endorsement, a conventional response to the Paris Declaration and a continuing strong commitment to decentralisation within the Bank leadership and management.

162. Our analysis has raised some concerns over the cost-effectiveness of the current course. The evidence suggests that the benefits arising from decentralisation in different RMC operating contexts are starting to vary and that this variance will increase as the objectives of the MTS 2008-12 are pursued. For example, the Bank is planning to significantly increase its activity and role within fragile states. We conclude that it is such environments where a suitably geared FO can make the most (marginal) difference. In countries eligible for ADF finance (non-fragile), the current gains that can come through a FO in-country will in future be able to be achieved in other, more cost-effective ways through increasingly harmonised approaches. Moreover, the movement of the Bank away from relatively small development projects to large infrastructure, more regional and Budget Support interventions will start to reduce the area of operations where FOs in-country do make a distinct difference.

163. We therefore see three broad options for the AfDB in continuing with a decentralised approach:

- (A) Continue on current course and at current pace;
- (B) Continue on current course but with an accelerated push to complete a fully functioning network and associated delegated authority;
- (C) Adjust the course.

164. Our favoured option is (C) on the basis that in the longer term this will provide a more optimal set of benefits for the AfDB and its stakeholders than the present course looks set to deliver. For many of the ADF countries where FOs now exist we see potential advantages of a graduation to a regional office model with NPO outposts, closely aligned to the focal points of the regional economic commissions and the AfDB’s multi-lateral partners. Co-locating in regional centres could facilitate more selective investment in the strengthening of its strategic partnerships. In ADB eligible countries the emphasis on private sector lending will continue to grow. This suggests advantages in a field presence that is designed and geared as a business front to resourced HQ capacity to manage large multi-partner transactions. This possible way forward is illustrated in Table 6 below. A key related consideration is how an approach to decentralisation more tailored to the business goals of AfDB can be a more positive force in delivery on aid effectiveness commitments.

Table 6: Decentralisation approach focused on AfDB medium-term corporate priorities

| Client Segment (RMCs) | FO type | Reflecting focus on |
|------------------------|---|---|
| ADF eligible | Sub-regional hubs (matching location of RECs) with National Programme Office extensions (co-located other agencies) | Regional integration, Aid effectiveness, Delivering a high quality portfolio of large scale national/ multi-national projects |
| ADB eligible | Small highly professional and agile ‘business unit’ (adapted NPO) | Growing ADB lending (public and private). Facilitating Public Private Partnerships |
| ADF (‘fragile states’) | Fully resourced FO in-country serviced by links with HQ and sub-regional hubs. | Catalytic interventions (large/ small) leveraging resources of other donors in key areas of state building (governance, infrastructure etc) |

Recommendation 1: *Develop Option C through rationalisation and expansion of the existing FO network.* A customised approach to FOs based on a model of three types of business unit servicing the different client segments of ADB eligible, ADF eligible and ADF (fragile state facility). The FO types would have resources and authority adjusted to reflect the characteristic business environment, the comparative advantage of the AfDB, client capacity and needs. The FOs will play different roles reflecting the different emphasis being given to specific corporate objectives and the strategic positioning of the AfDB at the continent, regional, sub-regional and national level. Explore the detail of this option through a scenario planning exercise that considers the predicted costs and benefits of different configurations.

Recommendation 2: Establish a clear position on how decentralisation (as one of the instruments at the AfDB's disposal) will respond to and *help drive delivery of the AfDB response to the Accra Agenda for Action.*

165. We recognise that this course will be more demanding as a process to plan and manage (than Option A or B) and that to date the decentralisation process has suffered from weaknesses in leadership and management. In order to realise the potential benefits from decentralisation the change both in the FOs and in the HQ must be actively managed. Measurement of both the process and the effects of decentralisation needs to feed more strongly into management information and decision making.

Recommendation 3: Establish a *clear structure for management of the decentralisation process* with clear accountabilities. Actively manage the challenges that changes proposed and brought through decentralisation place on the organisation.

Recommendation 4: *Improve measurement of decentralisation* and the learning from the process through developing a clear results framework for a continuing decentralisation process within the MTS 2008-12 frame. One that looks out beyond AfDB to changes in the development status of RMC and progression of the aid effectiveness agenda.