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An IDEV **Corporate Evaluation**

Administrative Budget Management of the African Development Bank: An Independent Evaluation

Summary Report

AFRICAN DEVELOPMENT BANK GROUP

September 2015

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ACKNOWLEDGEMENTS

This summary report, prepared by the Independent Development Evaluation (IDEV) of the African Development Bank, presents the findings and recommendations of the evaluation of the management of Bank's administrative budget.The evaluation was managed by Madhusoodhanan Mampuzhasseril, Principal Evaluation Officer, with the support of Akua Arthur-Kissi, Evaluation Officer. Samer Hachem, Division Manager, IDEV2 provided guidance and oversight. This report is based on a larger technical report of the evaluation. IDEV conducted the evaluation with consultancy assistance from Ernst and Young, Tunisia. The consultant team was led by Arnauld Bertrand and Christina Castella. External expert reviewers included Achim von Heynitz, formerly Head of Budget Department at the World Bank, and Barun Chatterjee, formerly Senior Advisor, Corporate Resource Management, at the World Bank.

A Reference Group also provided insightful feedback at different stages of the evaluation including at Inception, Interim Findings and Draft Report. The evaluation team would like to thank the Reference Group and the external expert reviewers for their contributions, hard work and efforts in carrying out this evaluation, as well as all other colleagues who have provided valuable inputs, in particular from the Budget department of the African Development Bank. The team would also like to express deep appreciation to key contacts from the peer institutions, viz. the Asian Development Bank, the Inter-American Development Bank,the World Bank and Agence Française de Développement who facilitated the missions and information gathering in their respective organisations, shared their views and provided valuable inputs for the benchmarking study that informed the evaluation report.

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List of Acronyms and Abbreviations

ADB	Asian Development Bank
ADER	Annual Development Effectiveness Review
ADF	African Development Fund
AFD	French Development Agency
AfDB	African Development Bank
ATRS	Activity Time Recording System
BDIR	Board of Directors
BPMSD	Budget Department of ADB
BRC	Budget Review Committee
BUFIPOL	Budget and Financial Policy Committee
CAS	Cost Accounting System
CE	Country Engagement
CFP	Complex Framework Paper
CHRM	Human Resources Management Department
COBP	Country Operations Business Plans
CODE	Committee on Operations and Development Effectiveness
COPB	Programming and Budget Department
COPM	Delivery and Performance Management Office
COSP	Strategy and Policy Department
CPS	Country Partnership Strategy
CSP	Country Strategy Paper
CSVP	Corporate Services Vice-Presidency
DAC	Development Assistance Committee
DAM	Delegation of Authority Matrix
EARC	Eastern Africa Resource Centre
ECON	Chief Economist's Complex
ED	Executive Director
FCR	Fixed-Cost Ratio
FNVP	Financial Services Vice-Presidency
FO	Field Office
FVP/COO	First Vice President / Chief Operating Officer
GCI	General Capital Increase
GCRO	Group Chief Risk Office
HR	Human Resources
IDB	Inter-American Development Bank
IDEV	Independent Development Evaluation
IOP	Indicative Operational Programme
INOP	Indicative Non-Operational Programme
KPIs	Key Performance Indicators
MDB	Multilateral Development Bank
MfDR	Managing for Development Results
MTS	Medium-Term Strategy
MUA	Million Units of Account
NGFO	Nigeria Field Office
OECD	Organisation for Economic Cooperation and Development
OFSD	Financial Sector Development Department
OIVP	Operations III – Infrastructure, Private Sector & Regional Integration
OITC	Transport and ICT Department
ONEC	Energy, Environment and Climate Change Department
ORQR	Quality Assurance and Results Department
ORVP	Operations I – Country & Regional Programme & Policy
OSAN	Agriculture and Agro-Industries Department
OSHD	Human and Social Development Department
OSVP	Operations II – Sector Operations
PBD	Programme and Budget Document
PC	Performance Contract
PECOD	Permanent Committee on Decentralisation
PEX	President's Executive Committee
PPM	Programme and Practice Management
PRST	The Presidency
RBB	Results-Based Budgeting
RISP	Regional Integration Strategy Papers
RMC	Regional Member Country
RMF	Results Measurement Framework
RRC	Regional Resource Centres
SAP	Systems Application and Products
SARC	Southern Africa Resource Centre
SDN	Strategic Direction Note
SEGL	Secretary General
SMCC	Senior Management Coordination Committee
SNFO	Senegal Field Office
SPD	Strategy and Policy Department
SRAS	Strategic Resources Assessment Software
TRA	Temporary Relocation Agency
TYS	Ten-Year Strategy
UA	Unit of Account
UPRST	Units Reporting to the President
URCOO	Units reporting to the Chief Operating Officer
URBD	Units reporting to the Board
VPU	Vice-Presidency Unit
WBS	Work Breakdown Structure
WB	World Bank
WPA	Work Programme Agreement
WPBF	Work Programme and Budget Framework
ZMFO	Zambia Field Office

Executive Summary

Introduction

The evaluation of the efficiency and effectiveness of the African Development Bank's administrative budget management was one of the three components of an overall evaluation assessing the Bank's implementation of the GCI-6 (General Capital Increase) and African Development Fund 12th and 13th replenishment (ADF 12 & 13) commitments. The evaluation's overarching objective was to assess the extent to which the management of the Bank's administrative budget provides efficiency and effectiveness in delivering on its strategic priorities and areas where further improvements may be possible. The evaluation also assessed the extent to which key actions recommended by the 2012 review of budget reform had been implemented.

Administrative budget management at the Bank has been guided by an ambitious reform agenda approved by the Board of Directors on 15 June 2007. The reform package aimed at addressing some of the key challenges to the Bank's efficiency and effectiveness, and thus focused on: i) strengthening the link between institutional priorities and resource allocation; ii) enhancing institutional budget flexibility through increased fungibility and devolved authority; iii) establishing a new accountability and performance framework, notably by linking deliverables to key performance indicators (KPIs); and iv) building budget capacity throughout the institution. Budget reform thus occupied a central position in this evaluation.

Scope and Approach of the Evaluation

The evaluation was guided by four principal questions that dealt with: a) appropriateness of the Bank's tools and systems for managing its administrative budget; b) efficiency of the Bank's processes and procedures for formulating, allocating and using its administrative budget; c) the extent to which the Bank's approach supported results and performance; and d) the lessons learned from the implementation of budget reform initiated since 2007. The evaluation focussed on a period of five years (2010-2014) which includes the ADF 12 & 13 and GCI-6 cycles. The evaluation, however, has looked further back to establish changes in processes, where deemed necessary.

This evaluation is theory-based, and the evidence base for the evaluation was prepared by collecting quantitative and qualitative data and information through different methods and sources including: document review, process mapping, personal interviews, focus group discussions, electronic survey of the stakeholders including Bank staff and the Board, and telephone interviews with Field Office staff based on a semi-structured questionnaire. The information gathered from different sources was triangulated to arrive at the evaluation findings. Data and information were collected from four comparator institutions for the purpose of benchmarking.[1] An evaluation reference group and two external expert reviewers contributed to ensuring the factual accuracy, quality and rigour of the evaluation. Evaluation findings were presented to the Bank's management and reference group for feedback which were examined and addressed appropriately.

Main Findings

The budget reform was, by design, relevant and to a great extent articulated and integrated with other components of the Bank's reforms. The budget reform was to be implemented within a dynamic context of broader institutional reform and organisational changes at the Bank. Three different reforms critical to the budget reform were: a) the organisational restructuring of 2006 that established three Operations Complexes; b) Human Resources (HR) reforms including a new human resource strategy of 2007 and an 'updated people strategy' of 2013; and c) the decentralisation strategy including the 2010 roadmap. Coherence of the interrelated reforms that may enable or constrain their successful implementation and sequencing of their implementation were envisaged in the 2007 management proposal and the subsequent documents that pronounced new reform measures.

Budget reform is still work in progress. While good progress has been achieved in terms of devolving budget management authority and infusing greater flexibility and fungibility and building capacity, the reform remains very much a work in progress. Most of the key measures have been implemented in a technical sense, but those are yet to translate into tangible results. This is largely due to inadequate sequencing and delays in implementation and staff uptake of reform measures initiated. Some measures have been de facto reversed in the course of their implementation due to difficulties experienced, such as the devolution of staff management.

Overall, the Implementation of budget reform has been a challenging task. The chronology and sequencing of implementation of the budget reform have not always respected the timetable set out in 2007 or the overall logic of the reform. For example, the accountability framework lagged significantly behind the devolution of budget management responsibility, limiting the overall effectiveness of the reform. While the dynamic nature of this process could be considered a positive aspect of the overall reform implementation programme, allowing for experimentation and mid-course correction, it has reportedly contributed to the sentiment of 'reform fatigue.' Over the years, the management of the reform has been weakened, firstly by insufficient sponsorship at the senior management level, as pointed out by survey respondents and additional anecdotal evidence, and secondly, by the lack of institutionalised and formalised coordination between relevant actors in the management of reform implementation.

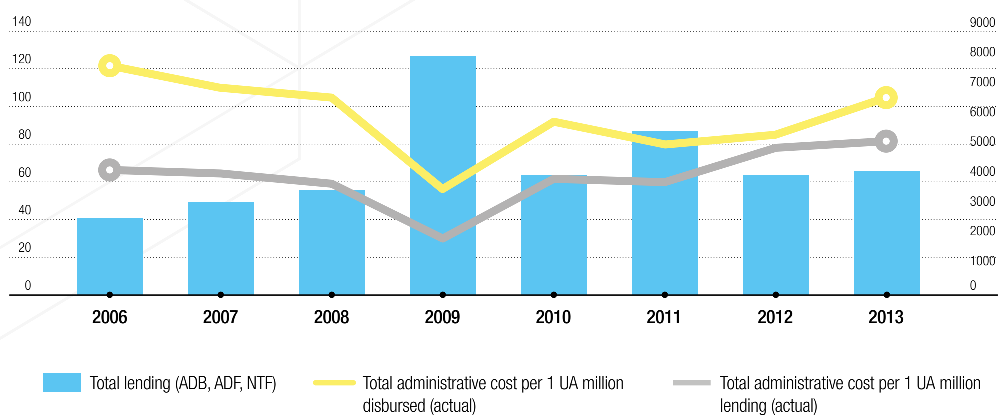
Budget tools have been enhanced, but further fine-tuning is needed. The budget tools are fully in place, but further effort is needed to improve the quality and therefore usability of the data generated. The Strategic Resources Assessment Software (SRAS) represents a major advance over previous working practices; however, the tool is not seen as user-friendly and has experienced technical snags in the past. Its development has been characterised by constant fine-tuning and a lack of integration with other important systems within the Bank. The full implementation of the Cost Accounting System (CAS) can also be seen as a major technical achievement, although the system is not yet providing reliable data due to usage issues with the underlying Activity Time Recording System (ATRS) and Work Breakdown Structure (WBS).

Behavioural changes required for effective implementation of reform were not adequately addressed. The reform is well advanced in attaining one of its key objectives, i.e. reinforcing budget management capacity, with considerable efforts made to develop capacity at the Complex level to accompany the devolution of budget management authority. Capacity development remains, however, an area for further improvement, as focus has been largely put on technical aspects with inadequate attention paid to bring about cultural and behavioural changes. While the former are necessary preconditions, the latter ultimately represents the key enabler for reform success.

The budget reform has had limited effect on the efficiency of key budget processes, notably budget and work programme planning. While this process does not need to be fundamentally reconsidered, some clear opportunities for efficiency gains are evident. The Bank's prevailing budget and work programme planning process is transaction intensive and takes approximately 22 000 person-days (or 92 full time equivalents) largely due to the bottom-up nature of the process. The multi-annual budget framework that demands putting in full details for all three years is effort-intensive but not all those details are put to actual use.

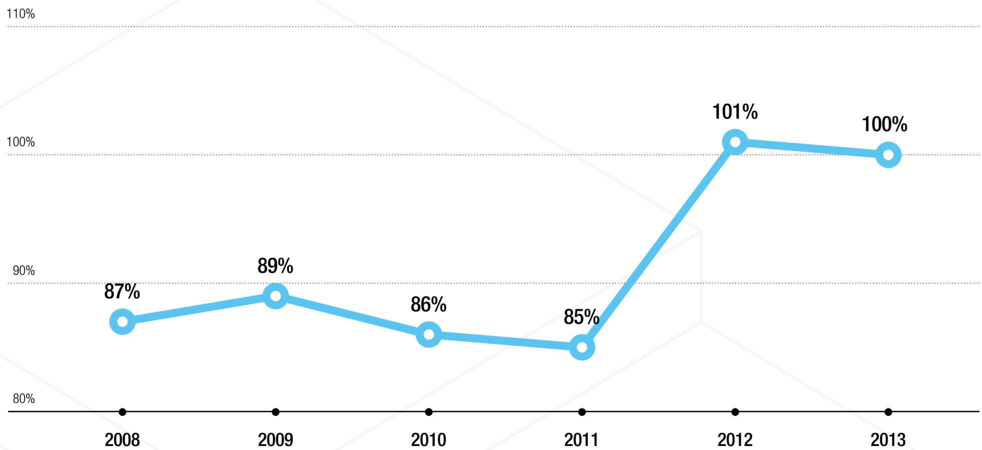
The budget reform has had limited effect on institutional efficiency as well. Analysis of some institutional efficiency indicators shows a negative trend over the past five years. For example, the removal of headcount control and introduction of Fixed Cost Ratios (FCR)[2] as part of Unit of Account (UA) budgeting in 2010 led to grade creep without reducing the vacancy rate. The administrative costs per million UA disbursed as well as per million UA lending are steadily rising since 2011. The latter indicator is showing a tendency to reach its pre-reform period level. Likewise, the number of Bank staff per lending volume is showing an upward trend (see Figure S1). There has been a significant improvement in budget execution rate since 2009 (see Figure S2) reflecting improved flexibility although not necessarily better efficiency. To some extent an unproductive[3] surge in fourth quarter spending is still continuing as was the case in the pre-reform period. On a positive note, the percentage of budget spent on operational activities is increasing in recent years, from 52.4% in 2011 to 54.8% in 2013. It is, however, lower than the 2008 level (58.5%).

Figure S1: Administrative costs per lending and disbursement volumes ('000 UA) and total lending (UA million) 2006-2013



Source: Annual retrospective reviews of the administrative budget and performance

Figure S2: Budget execution rates (2008-2013)



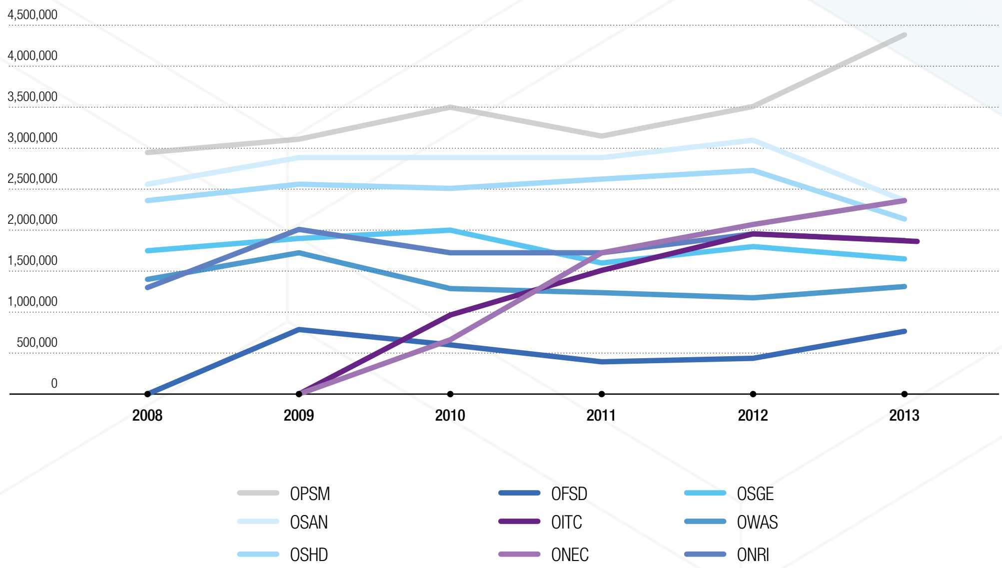
Source: SAP extractions

Budget management efficiency has been limited by the incomplete implementation of CAS. A fully operational CAS, if leveraged correctly, will have the potential to contribute to improving institutional efficiency through identifying areas for efficiency gains and facilitating internal and external benchmarking.

Although the alignment of resource allocation with strategic objectives shows a positive trend, up-front strategic priority setting and use of results data remain to be strengthened. The Bank has made efforts in moving beyond an incremental approach to budget allocation based on historical trends to one based on the work programme and strategic objectives. The evolution of budget allocation shows some positive change in terms of taking into account emerging priorities and strategic initiatives. Areas of traditional emphasis (for example, Human Development and Agriculture) have seen a negative growth, as more budget resources are shifted towards new strategic priorities, notably Environment, Private Sector, and Transport and Communication (see Figure S3). Yet there remains a widespread perception that the linkage between budget allocation and the work programme is weak and there is still an insufficient level of strategic decision-making within the planning process, which continues to be driven principally by bottom-up forces and bartering between Complexes. The lack of up-front budget priority setting weakens the link between the planning process and institutional strategy.

Furthermore, results monitoring work is insufficiently taken into account during strategic decision-making on budget allocation. The relations between the Board and senior management are also considered sub-optimal. For some time Board members have consistently requested deeper engagement on budget issues but this is yet to materialise. Finally, the budget planning process has not fully integrated the availability of external resources (trust funds) to finance implementation of the work programme.

Figure S3: Trends in budget expenditure (workload) by Sector Departments (2008-2013)

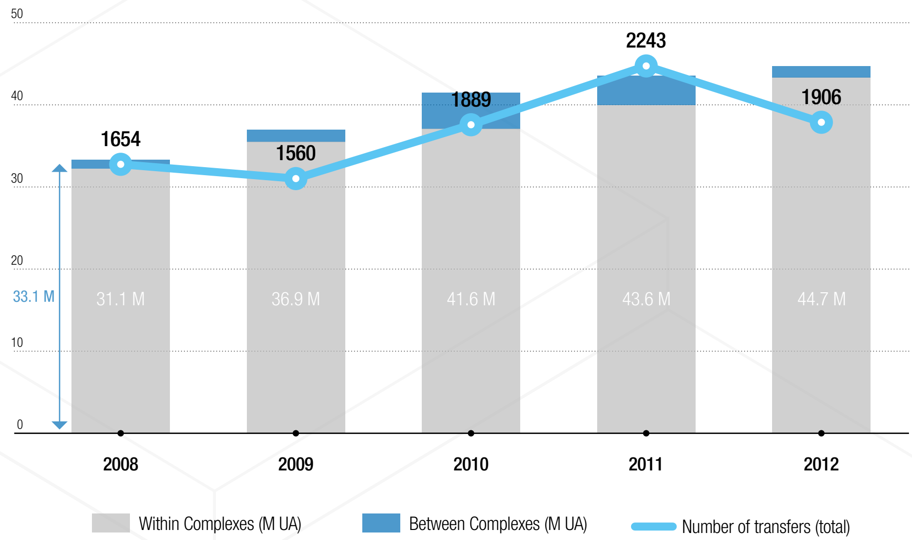


Source: SAP extractions

Greater flexibility has been introduced, but remains limited by staff budget management. The reform has made progress in infusing a greater degree of flexibility into day-to-day budget management. The gross annual budget transfer flows within Complexes have increased from UA 33.1 million in 2010 to UA 44.7 million in 2014 (see Figure S4). The number of transfers has increased from 1,654 in 2010 to 1,906 in 2014, peaking at 2,243 in 2013. However, this is ultimately limited by the reinstatement of headcount controls following the difficulties experienced with the implementation of FCR, as salaries make up the largest part (about 70%) of the directly managed budget. Furthermore, the Bank has not yet made the full transition to a UA Budgeting system,[4] with controls still remaining on fungibility and flexibility. At the Field Office (FO) level, there are capacity constraints which have necessitated continued HQ control over budgetary decisions at that level.

The accountability framework remains underdeveloped, despite devolution of more budget responsibility. The accountability framework has been slowly reinforced by improvements in performance monitoring and other measures, such as Work Programme Agreements (WPAs) and the Complex Framework Papers (CFPs). These measures have allowed for a stronger link to be made between resource allocation and expected results and clarify the responsibilities of actors. However, further fine-tuning is needed. The evaluation raised quality concerns regarding the CFPs and has underlined the need to complete the transition towards a true Country Budgeting System in order to reinforce the accountability aspects of the WPAs. Finally, the Performance Contracts have

Figure S4: Budget transfers by number and volume (UA million)



Source: SAP extractions

only been put in place more recently. While this is a first positive step, it should be noted that the Contracts should be accompanied by a framework of positive and negative incentives to be truly effective. While the achievements were notable, the accountability framework has been reinforced much too slowly compared with the rapid devolution of budget and staff management responsibilities. For instance, the CFPs were only implemented in 2012 and the Performance Contracts in 2014. The accountability framework is a fundamental counterpart to devolution of increased responsibility and necessary to avoid unintended consequences.

The budget reform has contributed to improving the monitoring and reporting framework, but there is scope for progress as this has yet to translate into a data-driven performance culture. Performance monitoring has been reinforced by greater use of KPIs throughout the institution, although there is further room to improve the quality of KPIs. The shifting role of the Budget Department (COPB) and the creation of the Delivery and Performance Management Office (COPM) have also contributed to more relevant and analytical reporting. Finally, the implementation of CAS holds significant potential for further reinforcing the monitoring and reporting framework when the system is fully operational.

Despite these achievements, the Bank is only in the initial stages of making the shift to a data-driven performance management culture. KPIs and other reporting data are not actively used in decision-making and day-to-day management. COPB is commencing efforts to institutionalise regular performance dialogue on the basis of KPIs; however, this effort will need to be sustained, and accompanied by a wider change management strategy. Success in enhancing reporting documents is also seen as contributing to this transition in the longer term.

Overall Assessment

By way of background to the above findings, the overall assessment of administrative budget management in the Bank has been rated moderately unsatisfactory, as detailed below in Table S1.

Lessons

The following are the key lessons emerging from the implementation of administrative budget management reform in the Bank. These four lessons are relevant for other institutional reforms as well.

a. ***External coherence.*** Systematic analysis of external coherence of the specific institutional reform with other reforms (planned or ongoing) and institutional priorities should be carried out during the reform design/inception stage itself and taken fully into account during implementation. Institutional reforms can all be seen as forming part of the broader transformation of the Bank into a performance-driven and learning institution; specific attention needs to be given to monitoring and evaluation.

b. ***Sequencing.*** Agendas in a given reform package should be appropriately sequenced at the design

Table S1: Overall Assessment of the Bank's Administrative Budget Management

Evaluation criteria and evaluation questions	Overall rating
Relevance and coherence	***Satisfactory***
Was the budget reform in line with needs?	Satisfactory
Was the budget reform well-articulated with other reform agendas?	Satisfactory
Implementation	***Moderately Unsatisfactory***
How effective was the implementation of the budget reform?	Moderately Unsatisfactory
Has the budget reform delivered its planned outputs?	Moderately Unsatisfactory
Efficiency	***Moderately Unsatisfactory***
Are budget planning and execution activities efficient?	Moderately Unsatisfactory
Are resources used efficiently?	Moderately Unsatisfactory
Effectiveness	***Moderately Unsatisfactory***
To what extent does the budget system support a greater alignment with the TYS?	Moderately Satisfactory
To what extent does the budget system support an output-based resource allocation?	Moderately Unsatisfactory
Does the budget framework ensure optimal flexibility?	Moderately Satisfactory
Is the utilisation of resources monitored for accountability purposes?	Unsatisfactory
Overall rating	**Moderately Unsatisfactory**

stage, and implementation should have a clear strategy with consistent objectives, overarching vision, and timeline with milestones and key steps. Untested interventions can be pilot tested before wider implementation.

c. ***Cultural and behavioural change.*** Effective implementation of institutional reform requires cultural and behavioural change, and this should be accorded the same emphasis as given to the technical implementation of the reform agenda. Enhanced processes, frameworks and tools will ultimately have little impact if they are not supported by suitable changes in the way the staff think and act. This necessitates a clear communication and change management strategy.

d. ***Senior management sponsorship and reform management structure.*** Cross-institutional coordination and coherence with other reforms, facilitation of clear communication and coherent narratives, and greater accountability for results require senior management buy-in, action and sponsorship to be effective. A formal coordinating body can be as essential for effective reform implementation as is the active involvement of all relevant actors.

Recommendations

i. Expedite full implementation of budget reform

- Review the priorities and sequencing in coherence with other institutional reforms and fix a clear deadline for full implementation of reform measures. Staff management devolution and accountability framework should be implemented on priority.
- Define a clear change management strategy, combining targeted capacity development based on the specific needs of stakeholders, clearer communication on the reform vision, objectives and progress in addition to communication on specific tools and processes, and incentives to adapt to new ways of planning and budgeting.
- Strengthen the reform management structure by assigning an interdepartmental and cross-complex core team under the direction of the First Vice President / Chief Operating Officer (FVP/COO) to coordinate reform implementation—that is, budget as well as all other institutional reforms.

ii. Strengthen the monitoring and accountability framework

- Strengthen the monitoring and accountability framework, with measurable result-oriented KPIs for each cost centre and performance conversations based on regular performance assessments.
- Revise the existing KPIs and performance feedback process to ensure that results monitoring data are sufficiently taken into account during the planning and budgeting process.
- Complete the transition towards Country Budgeting guided by the CSP, in order to realise the full potential of Work Programme Agreements in reinforcing accountability.
- Strengthen transparency around planning and budgeting through open access to budget and performance data, for Complexes and Units, and more impactful data visualisation.

iii. Simplify the planning and budgeting process and better articulate it with the Bank's strategic priorities

- Improve the balance between bottom-up and top-down aspects of the planning process by strengthening top down directions by Senior Management at the outset for greater strategic alignment.

- Reduce information burden of the planning process, notably by budgeting in detail only for the 1st year of the three-year planning framework and indicating overall resources likely to be available for the 2nd and 3rd years. Complete implementation of CAS and WPA, and use CAS data to generate cost coefficients to reduce the information burden on managers.

- Integrate management of external resources, like the Trust Funds, into the planning process to provide Senior Management with a comprehensive picture of the available resources and to ensure that the use of those resources is fully aligned with institutional priorities.

iv. Streamline and strengthen relations with the Board

- Establish a forum to strengthen the interaction between the Board and the management with clearly defined terms of reference that enable the Board to provide strategic guidance for the budget review, approval and oversight processes. In this context, rather than creating a new forum, it is recommended that an existing committee—such as the audit and finance committee—be strengthened and given the additional responsibility. ■

Management Response

Management welcomes IDEV's independent evaluation of the Bank's administrative budget management. The evaluation provides a timely assessment of the Bank's achievements and highlights some of the challenges the Bank will need to meet. It provides the Bank an excellent opportunity to address its budgeting and planning processes to make them more efficient and effective. Overall, Management agrees with the findings and recommendations of the evaluation, with a few reservations that are explained below.

Introduction

The Bank is committed to managing its administrative budget to achieve strategic prioritisation of resources, efficient and effective delivery of the Bank's development programmes, aggregate fiscal discipline and clear lines of accountability.

To this end, the Bank has pursued budget reforms as an integral part of a broader set of institutional reforms and organisational changes. This is because budget processes cannot by themselves drive institutional performance—the budget is embedded in staffing policies and management and decision-making practices. At the same time, the Bank's institutional performance is unlikely to improve if budget systems get in the way of broader reform efforts such as decentralisation and delegation of authority.

With these concerns in mind, in 2007 the Bank embarked on an ambitious set of reforms aimed at:

- Strengthening the link between institutional priorities and resource allocation.
- Devolving budget management to the Complexes for more flexible use of resources.
- Adopting a framework for accountability and performance management at the Complex level.
- Introducing modern budgeting practices, and building capacity to enable Complexes to plan and execute work programmes and budgets in line with Bank strategic priorities.

Against this background, Management welcomes IDEV's evaluation of the Bank's administrative budget management. The evaluation provides a valuable assessment of the Bank's strengths and weaknesses in implementing its budget reforms. It also helps Management identify areas where further improvements are possible.

Overall, Management agrees with the findings and recommendations of the evaluation, with a few reservations that are explained below.

Implementing Budget Reforms

The evaluation indicates that the implementation of budget reforms has not respected clear sequencing and lacks coherence with other ongoing institutional reforms. This, according to the evaluation, has limited the impact of these reforms on the efficiency of key budget processes.

Management agrees only in part with this finding. To be effective, reforms cannot be sequenced and rolled out mechanistically according to a pre-established blueprint. Too many factors influence sequencing, notably the extent to which underlying reforms and institutional arrangements are effectively in place. The complexity and nature of the budget reforms require certain flexibility. For example, establishing a robust strategic staffing architecture was a prerequisite to devolving staff management and removing headcount controls.

That being said, Management agrees that it needs to reconsider the sequencing of budget reforms in the light of recent achievements and current institutional priorities. For example, approval of a new staff compensation structure needs to precede planning for salary and benefits, which represent close to 70 percent of the Bank's administrative budget. Therefore, Management will elaborate a Reform Action Plan that charts a clear course of action for implementing outstanding reforms in the broader context of such institutional reforms as a new compensation framework, strategic staffing architecture, updated decentralisation model, HQ footprint, performance management framework and budget reforms.

The evaluation also states that Management needs to improve communication on the budget reform vision, objectives and progress. Management fully agrees. Budget systems are also communication systems, conveying important signals to staff and managers about corporate priorities, intentions and commitments. To improve staff's understanding of the purpose and modalities of the budget reforms, the Budget Department (COPB) will work with the Communication Department to elaborate a *Budget Communication Plan* that will be rolled out by September 2016. Special attention will be given to designing a training catalogue for each target group—cost centre managers, budget focal points, vice-presidents and Executive Directors—with training sessions tailored to the specific needs of each group.

This initiative comes over and above a range of capacity-building initiatives COPB has taken in recent years or has already planned to roll out—for example:

- Training on key budget tools and processes. COPB, in collaboration with the Strategy and Policy Department (COSP), has over the years provided intensive staff training and workshops on key budget tools and processes, including the Action Time Record System, Cost Accounting System (CAS) and Strategic Resources Assessment System.

- Network of budget focal points. Management set up a network of department-level budget focal points to assist managers with budget management and planning. Since 2010, each Complex has been assigned a budget coordinator to ensure that the right level of capacity is made available for better budget planning, execution, monitoring and reporting.

- Guidelines. The finalisation of the Budget Procedures and Business Process Guidelines, by mid-2016, will help create a common understanding around budget processes and procedures. Once completed, the guidelines will be disseminated to all staff through training and workshop sessions.

The evaluation suggests that there is a shortfall in terms of senior management sponsorship of budget reforms. In particular, it raises questions about the level of coordination and support provided by senior management and recommends a new structure reporting to the FVP/COO.

Management takes note of this recommendation. However, considering the interlinkages between different institutional reforms, Management believes that budget matters are best handled collectively by the Senior Management Coordinating Committee (SMCC). In effect, SMCC's remit is not only to oversee the budget process and budget reforms, but also to coordinate all institutional reforms. SMCC is chaired by the FVP/COO in the absence of the President. In addition, the FVP/COO has oversight over strategic organisational issues.

Monitoring and Accountability Framework

The evaluation notes that the monitoring and accountability framework remains underdeveloped. Management agrees only in part with this finding. Over the last three years, Management has rolled out a number of major reforms to strengthen institutional accountability—for example:

- Complex Framework Papers (CFPs). CFPs are comprehensive Complex-level documents that discuss strategic orientation and resource needs and are designed to better align work programmes with corporate priorities. Management has scaled up the use of CFPs by linking them to performance contracts signed by the VPs on behalf of their Complexes at the beginning of the budgeting exercise. Complex work programme execution, budget efficiency and effectiveness are regularly monitored, though Management agrees that this could be further improved and is taking steps to do so.

- Work Programme Agreements (WPAs). These agreements are designed to improve coordination between sector and regional teams; they help ensure that work programmes are consistent with the Country Strategy Papers and respect the Bank's lending ceilings and targets.

- Aligning KPIs with corporate priorities. Management is streamlining KPIs to ensure that they are aligned with corporate goals, strategies and expected results and are as useful as possible in tracking the Bank's performance. The Bank is implementing the first phase of reforms with the introduction of KPIs for Complexes, reinforced with a robust CAS for determining the cost of executing work programmes by activities. The CAS, currently under development, will strengthen the Bank's ability to better assess performance.

- Performance contracts. Performance contracts hold Vice Presidents and Directors accountable for effective and efficient delivery of the Bank's work programme based on the KPIs set out in CFPs.

Moving forward, Management will continue to provide full support to budget reforms with a view to realising the full potential of Country Budgeting. Work programme validation will be further delegated as the decentralisation agenda progresses and as operational departments are given more flexibility in planning their human resources. With the approval of *Decentralisation Roadmap Updated Action Plan* and *Strategic Staffing*, stronger Country Budgeting will be possible from 2017 onwards.

The evaluation notes the importance of transparency around the planning and budgeting process through open access to budget and performance data for Complexes. Management agrees with this conclusion and wants to ensure that the newly established Delivery and Performance Management Office (COPM) gradually takes root in the institution and makes major strides in improving the Bank's performance management culture and practices. COPM's two monthly flagship products, the *Executive Dashboard* and the *Portfolio Flashlight Report*, already provide staff and Management with critical and timely information on the Bank's performance at division, country, regional and corporate levels. The full operationalisation of the CAS will further strengthen COPM's analytical capability, with additional emphasis on driving efficiency gains across the institution.

Simplify Planning and Budgeting Process

One of the biggest challenges flagged by the evaluation is ensuring effective balance between a bottom-up and a top-down approach. Management considers that the budgeting process already offers a good balance between a top-down and a bottom-up approach and is well articulated with the Bank's strategic priorities. To this end, a three-step approach has been adopted:

- Step 1. At the strategic level, the FVP/COO provides all Vice-Presidents orientations on the planning and budget exercise for a three-year period. Complexes then use this information to develop work programme activities, identifying the resources required to achieve the objectives set out in the Bank's Strategy. A Bank baseline budget provides Management with a point of reference to guide budget planning. It also guides a first strategic conversation with the Board Committee of the Whole while providing the basis for building a more detailed budget proposal.

- Step 2. Following SMCC arbitration, the budget baselines are allocated rigorously at Vice President Unit levels. Factors that guide the baseline budget include past budget execution rate, work programme performance and additional budgetary resources for strategic initiatives/activities.

- Step 3. Following Management validation, the proposed budget is submitted to the Board for a second Committee meeting and, after a last iteration, for formal Board approval. Management agrees that there is scope to improve Board involvement in this process by helping reconcile a top-down and bottom-up process.

The evaluation also notes that the budget processes are burdensome because of delays in implementing CAS. Management agrees with this observation and is committed to fully operationalising the CAS by 2016. CAS will enhance budget allocation through more accurate estimates of the costs of deliverables. It will also provide data on which to manage for development results, reducing the information burden and focusing the discussion on deliverables, not the inputs needed to produce them. The infrastructure and systems for collecting key CAS data have been developed, including the Work Breakdown Structure and the Activity Time Recording System.

The evaluation notes that the Bank needs to integrate the management of external resources into the planning process and to ensure that those resources are fully aligned with institutional priorities. Management fully agrees with this observation and will ensure that greater information on trust funds is provided in its Complex Framework Document as part of the three-year rolling Planning and Budgeting Document.

In addition, the Resource Mobilisation and External Finance Department will continue to submit to SMCC a half-yearly report on trust funds management. This report examines the Bank's trust fund resources in terms of commitments, disbursements, cancellations and availability for allocation to new activities.

Finally, the evaluation report acknowledges that it is technically difficult to make projections on the availability of trust fund resources. Management concurs but will continue to explore with donors how best to increase the predictability of the availability of trust fund resources to allow for more holistic strategic decision-making.

Relations with the Board

The evaluation further notes the necessity to strengthen relations with the Board and recommends giving additional responsibility to the Audit and Finance Committee (AUFI).

While the Board of Directors is exclusively responsible for formulating and adopting general policies for the conduct of the Bank's business, among multilateral development banks it is a well-established practice that Management develops proposals and recommendations in all matters of policy (including budget allocations) requiring decision by Executive Directors. As a Board committee, AUFI is not a decision-making body, but rather it makes recommendations to the Board of Directors. Creating a forum as proposed or giving AUFI additional responsibilities in the manner suggested could obscure the distinction between the powers, functions and responsibilities of the Board of Directors and those of the President as delineated in the Agreement establishing the African Development Bank, the General Regulations and the Financial Regulations of the Bank.

Management holds regular consultations with the Board during the budget planning exercise. As the report points out, the planning and budgeting processes should not be burdened beyond those three meetings. The expected enhancement of the budgeting processes, with more balance between the bottom-up and top-down approaches, will reinforce interactions with Board members earlier in the process. This will enable Management to inform, consult with, and seek guidance from the Board when needed.

After the end of 2016, when the CAS is operational and providing more regular feedback, Management will also be able to improve the quality of the information provided in the quarterly reporting.

Conclusion

The IDEV evaluation is timely and provides Management with useful lessons. Management agrees with most of the recommendations. Management would also like to emphasise that the implementation of budget reforms has been on a positive trajectory as part of a broader reform agenda to improve coordination, delivery and corporate performance. In this regard, the Budget Department, with counterparts in the other departments of the Bank, has worked relentlessly to achieve the ambitious objectives of the budget reform agenda.

While recognising that the Bank has made many positive strides, Management is committed to accelerating and scaling up efforts to complete the reform agenda over an acceptable timeframe. Necessary steps will be taken to fully implement the actions highlighted above. The Management Action Record is attached. ■

MANAGEMENT ACTION RECORD	
Recommendation	**Management's response**
Recommendation 1: *Expedite full implementation of budget reform.*	
Review the priorities and sequencing in coherence with other institutional reforms and fix a clear deadline for full implementation of reform measures.	**AGREED IN PART** – While Management does not agree with the premise of this recommendation — that reforms were poorly sequenced— it does agree on the need to reconsider the sequencing of budget reforms in the light of recent achievements and current institutional priorities. Actions: ▮ **COPB** will evaluate the status of the reforms and by **Q2 of 2016**, elaborate a *Reform Action Plan* that sets out a clear sequence and timeline for implementing outstanding reforms in the dynamic context of broader institutional reforms.
Staff management devolution and accountability framework should be implemented on priority.	**AGREED** – Staff management devolution and enhanced accountability are at the centre of the Bank's budget reforms. For example, the accountability framework is currently being reinforced by better linking CFP proposals to performance contracts. Furthermore, once the strategic staffing proposal is approved, staff management devolution will be made easier. Actions: ▮ Management and the Board to agree on a strategic staffing framework by **June 2016**, for implementation over a multi-year period. ▮ As part of this initiative, **COPB**, in collaboration with CIMM, will provide the necessary IT tools to link CFPs and performance contracts by **Q1 2017**.
Define a clear change management strategy, combining targeted capacity development based on specific needs of stakeholders, clearer communication on the reform vision, objectives and progress in addition to communication on specific tools and processes, and incentives to adapt to new ways of planning and budgeting.	**AGREED IN PART** – COPB, working with other departments, has regularly provided information on budget initiatives, including through training programmes covering all aspects of work programming and budget management. Management recognises that there is benefit in further strengthening these initiatives. Actions: ▮ **COPB** will by **Q2 2016** improve the effectiveness of the communication plan by designing a training catalogue for different target groups: managers, budget focal points, VPs and EDs. ▮ By **Q4 2016**, **COPB** will publish the Budget Procedures and Business Process manual.
Strengthen the reform management structure by designating an interdepartmental and cross-Complex core team under the direction of the FVP/COO in order to coordinate reform implementation—budget as well as all the other institutional reforms.	**AGREED IN PART** – Considering the interlinkages between different institutional reforms, Management believes that budget matters are best handled collectively by SMCC, which is chaired by the FVP/COO in the absence of the President. Management agrees, however, on the need to strengthen SMCC's role to improve the coordination of reform implementation. Actions: ▮ By **Q4 2015**, **FVP/COO** will strengthen the role of the SMCC Secretariat (currently in the Front Office of the FVP/COO) with a view to improving coordination of all Bankwide reforms and initiatives. ▮ In addition, by **Q2 2016 COPB** will create a dedicated cross-Complex team to monitor implementation of budget reforms. The team will report quarterly to the FVP/COO.

MANAGEMENT ACTION RECORD	
Recommendation	**Management's response**
Recommendation 2: *Strengthen the monitoring and accountability framework.*	
Strengthen the monitoring and accountability framework, with measurable results-oriented KPIs for each cost centre and performance conversations based on regular performance assessments. *Revise the existing KPIs and the performance feedback process to ensure that results monitoring data are sufficiently taken into account during the planning process.*	**AGREED** – While a number of measures have already been implemented to reinforce accountability mechanisms (performance contracts, CFPs, WPAs), Management agrees on the benefit of enhancing the accountability framework, including its KPI framework. Actions: ▌ **COPB**, in collaboration with COSP, COPM and ORQR, will review AfDB's KPI framework and will formulate proposals aimed at: ▌ Streamlining KPIs to ensure that they are aligned with the Bank's institutional goals, including its 10-Year Strategy, and that they are as useful as possible in tracking the Bank's performance; ▌ Strengthening accountability mechanisms for tracking and achieving the Bank's corporate goals; ▌ Linking Complex/Unit performance with clear objectives and the resources required to achieve them; and ▌ Providing effective feedback mechanisms for informing budget resource allocations. The exercise will be completed by **Q3 2016**, in time to inform the 2017-2019 budget cycle.
Complete the transition towards Country Budgeting guided by the CSP, to realise the full potential of Work Programme Agreements in reinforcing accountability.	**AGREED** – Management agrees that accountability is a necessary counterpart to decentralisation and fungibility/flexibility. Work programme validation will be further delegated as the Bank makes progress with decentralisation and as operational departments are given more flexibility in planning their human resources. Actions: ▌ **COPB** will pursue a *coordinated reform agenda* to realise the full potential of Country Budgeting. ▌ Once the *Updated Decentralisation Action Plan* and *Strategic Staffing* proposals are approved, it will be possible to further strengthen Country Budgeting.
Strengthen transparency around planning and budgeting through open access to budget and performance data, for Complexes and units, and more impactful data visualisation.	**AGREED** – The newly established Delivery and Performance Management Office (COPM) already delivers two monthly flagship products: the *Executive Dashboard* and the *Portfolio Flashlight Report*. Further actions will be taken to strengthen transparency around planning and budgeting. Actions : ▌ By **Q4 2016, COPM** will develop and disseminate a new series of analytical reports generated from CAS.
Recommendation 3: *Simplify the planning and budgeting process and better articulate it with the strategic priorities of the Bank.*	
Improve the balance between the bottom-up and top-down aspects of the planning process by strengthening top-down directions by Senior Management in the beginning for greater strategic alignment.	**AGREED IN PART** – The Bank's budgeting approach already offers a good balance and is well articulated with the Bank's strategic priorities. Actions: ▌ By striking a good balance between the top-down and bottom-up processes, **COPB** and **COSP** will provide early strategic guidance through a *Strategic Direction Note* with early input from the Board. This initiative will start with the next programming cycle, in **mid-2016**.

MANAGEMENT ACTION RECORD	
Recommendation	**Management's response**
Reduce the information burden of the planning process, notably by budgeting in detail only for the 1st year of the three-year planning framework and giving overall resources likely to be available for the 2nd and 3rd years. Complete implementation of CAS and WPA and use CAS data to generate cost coefficients to reduce information burden on managers.	**AGREED** – Management agrees with the recommendation to further improve the budgeting process. Actions: ▌ **COPB** will build the 2018-2020 Planning and Budget Document on the more robust CAS data that are expected to be available by **Q4 2016**.
Integrate the management of external resources, like the trust funds, into the planning process to provide Senior Management with a comprehensive picture of the available resources and to make sure that use of those resources is fully aligned with institutional priorities.	**AGREED** – Management fully agrees with this observation and will ensure that greater information on trust funds is provided in the budget planning. In addition, the Resource Mobilisation and External Finance Department (FRMB) will continue to submit to SMCC a half-yearly report on trust funds management. Action: ▌ **FRMB** will continue to explore with donors on how best to increase the predictability of the approval of trust funds resources to allow for more holistic strategic decision-making. The results of this exercise will be available in the next **2017-2019 budget cycle**. ▌ **FRMB** will ensure that greater information on trust funds is provided as part of the three-year rolling Planning and Budgeting Document, in the next **2017-2019 budget cycle**.
Recommendation 4: *Streamline and strengthen relations with the Board.*	
Establish a forum to strengthen the interaction between the Board and Management with clearly defined terms of reference that enable the Board to provide strategic guidance for the budget review, approval and oversight processes. In this context, rather than creating a new forum, it is recommended that an existing committee—such as the audit and finance committee—be strengthened and given the additional responsibility.	**DISAGREED** – The planning and budgeting processes are already intense, involving three meetings between Management and the Board. While the Board is exclusively responsible for formulating and adopting general policies for the conduct of the Bank's business, among multilateral development banks it is a well-established practice that Management develops proposals and recommendations in all matters of policy (including budget allocations) requiring decision by Executive Directors. As a Board committee, AUFI is not a decision-making body, but rather it makes recommendations to the Board of Directors. Creating a forum as proposed or giving AUFI additional responsibilities in the manner suggested could obscure the distinction between the powers, functions and responsibilities of the Board of Directors and those of the President as delineated in the Agreement establishing the African Development Bank, the General Regulations and the Financial Regulations of the Bank. Action: ▌ Improvements in the budgeting process, together with a better balance between the bottom-up and top-down approaches, will reinforce interactions with Board members early in the process. This will also improve Management's ability to inform, consult with and seek guidance from the Board in a timely manner.

Introduction

Evaluation Objectives

The Independent Development Evaluation (IDEV) of the African Development Bank Group (AfDB or the Bank) undertook an evaluation of the Bank's Administrative Budget Management. This evaluation is one of three components that form an overall evaluation of the implementation of the Bank's commitments associated with the African Development Fund (ADF) 12th and 13th replenishments and the African Development Bank's General Capital Increase (GCI) 6.

The objective of the evaluation was to assess the extent to which the management of the Bank's administrative budget is efficient and effective in delivering on its strategic priorities, and to identify areas where further improvements may be possible.

Scope and Approach of the Evaluation

The thematic scope of this evaluation is centred on the Bank's administrative budget management as outlined by four evaluation questions:

a. Has the Bank been able to ensure that the tools and systems for managing its administrative budget are appropriate?

b. Are the Bank's processes and procedures for formulating, allocating and using its administrative budget time and resource efficient?

c. To what extent does the Bank's approach to managing its administrative budget support results and performance? and

d. What lessons can be drawn from the implementation of recent budget reform approved in 2007 and UA budgeting introduced in 2008?

The evaluation is primarily focussed on a period of 5 years (2010-2014) which includes the ADF-12 and 13 and GCI-6 cycles. However, the evaluation has looked further back to establish changes in processes, where deemed necessary. The evaluation has given particular focus on the budget reforms implemented since 2008 in order to appreciate fully their relevance, efficiency and effectiveness along with formulating lessons that can be drawn from their implementation.

This evaluation is theory-based, and the evidence base for the evaluation was prepared by collecting quantitative and qualitative data and information through different methods and sources including: document review, process mapping, personal interviews, focus group discussions, electronic survey of the stakeholders including Bank staff and the Board, and telephone interviews with Field Office staff based on a semi-structured questionnaire. The information gathered from different sources was triangulated to arrive at the evaluation findings. Data and information were collected from four comparator institutions for the purpose of benchmarking. An evaluation reference group and two external expert reviewers contributed to ensuring factual accuracy, quality and rigour of the evaluation. Evaluation findings were presented to the Bank's management and reference group for feedback which was then examined and addressed appropriately.

Evaluation Context

Significant ongoing institutional reforms. The Bank has undertaken several institutional reforms to enhance its efficiency and development effectiveness. On the basis of a proposal adopted the previous year by the Board of Directors, significant reforms were embarked upon in 2007 as part of a 'core reform agenda.' Four priority areas were identified as key drivers of change:

a. *Human resources:* A new HR strategy[5] incorporating laid out mechanisms aiming at enhanced HR management, more accurate needs analysis, improved staff recruitment practices to attract and retain talent, effective staff management and an objective staff performance assessment system.

b. *Business processes:* New operational business processes were introduced to improve client responsiveness and service delivery. This included a streamlined operational review and approval process; strengthened Country Teams to act as focal points in design, review, and coordination of the Bank's operations and country strategies; and greater delegation of authority in operational decision-making (along with fiduciary safeguards and accountability systems) to accelerate processing time, empower local management, and enhance country relations.

c. *Budget management:* Budget reforms were initiated to improve efficiency in the use of limited budgetary resources. Specifically, the budget reform aimed to ensure alignment between resource allocation and institutional priorities; introduce flexibility in the management of budget through fungibility and devolved resource management authority; and establish a new accountability and performance framework linking work programme deliverables to KPIs.

d. *Decentralisation:* The Bank enhanced the implementation of a decentralisation strategy introduced in 2004 to improve portfolio quality, enhance its visibility and foster interaction and sustained dialogue with national authorities and other development partners.

These reforms were mainly driven by commitments under ADF-12 & 13 and GCI-6. Many of the Bank's internal reforms were initiated and shaped during the negotiations surrounding the growth of its capital base. Approval of GCI-6 by the Board of Governors in 2010 was accompanied by a number of institutional reform commitments that were progressively implemented by the management in parallel to - and through - the broader internal reform agenda. The GCI-6 commitments covered the following main areas: risk management capacity; business processes and organisation; decentralisation; human resources; quality-at-entry and managing for results; corporate policies, strategies and guidelines; and operational policies, strategies and guidelines.

Likewise, the ADF-12 (2011-2013) and ADF-13 (2014-2016) replenishments were contingent on the Bank taking on a number of commitments either specific to the management of ADF resources or the broader institutional efficiency and effectiveness of the Bank. The commitments for which Bank management has assumed responsibility during these ADF replenishments can be grouped in four general categories: a) strategic and operational focus; b) development effectiveness and managing for results; c) resource allocation and financial management; and d) institutional effectiveness.

Administrative budget reform. The need for a major administrative budget reform was first discussed in 2003 with the introduction of the first five-year strategic plan.[6] The Bank's budget process has since evolved from activity-based budgeting to business processes and strategic objectives-based budgeting, while various initiatives were implemented aiming at reinforcing the institutional planning, and improving the budgetary control environment and the management of resources. The budget reform package adopted by the Bank in 2007, targeted at supporting a paradigm shift to managing for development results, and addressing identified constraints, was elaborated in the proposal on an enhanced budget process:

a. *Laborious business planning:* Budget formulation, consolidation and arbitration were complex, time consuming and lacking in clarity, undermining cross-organisational strategic coherence and alignment with the Bank's priorities. The budget and the indicative operational work programme (IOP) were submitted to the Board in separate documents; budget proposals for the following year were approved in December and the IOP six months later. These factors combined to weaken the overall alignment of the Bank's activities with strategic priorities and of the administrative budget with the work programme.

b. *Imprecise accountability framework:* While delivery targets were clearly tied to work programmes, the lack of performance-based incentives, allocation decisions and results-oriented management undermined accountability.

c. *Highly centralised budget:* Of the administrative budget 85% was managed centrally, and the matrix relating to the delegation of budget authority and the approval process to move resources across Complexes was considered highly constraining, and deterred accountability.

d. *Rigid budgetary controls:* Restricted fungibility and stringent budget transfer rules and procedures linked to the regulatory framework left managers with limited flexibility in resource management and the shifting of work programme priorities.

The 2007 administrative budget reform consequently sought to address inadequacies of previous reforms as well as the constraints discussed above, and set out to achieve the following objectives:

a. strengthening the link between institutional priorities and resource allocation;

b. enhancing budget flexibility through increased fungibility and devolved authority;

c. establish a new accountability and performance framework, linking deliverables to KPIs; and

d. the development of budget management capacity throughout the institution.

As stated in the scope and approach, this independent evaluation looked into the extent of implementation of budget reform approved in 2007 and subsequently implemented in different stages. The specific reform measures envisaged and implemented in a phased manner were examined to see their impact on the efficiency and effectiveness of administrative budget management in the Bank. The causal links between the reform measures and the expected results are graphically represented in the results chain (see Figure 1, next page). The results chain presents the main components of the theory of change, implied in the set of reform measures formulated by the Bank's management. Validity of the causal links, however, depends on several assumptions, which were tracked as part of f the evaluation. The key assumptions were fourfold:

a. Budget reform measures, especially concerning flexibility and devolution of budget responsibility to managers, are coherent with other areas of

Bank policy including HR policies, business processes and decentralisation.

b. Bank's resource availability remains facilitative of reform implementation. From a managerial perspective, budget cuts have the potential to render the work programme planning exercise less effective.

c. Implementation of reform measures follows logical sequencing, as outcomes of certain budget reform measures are essential for the effectiveness of several other areas of the reform.

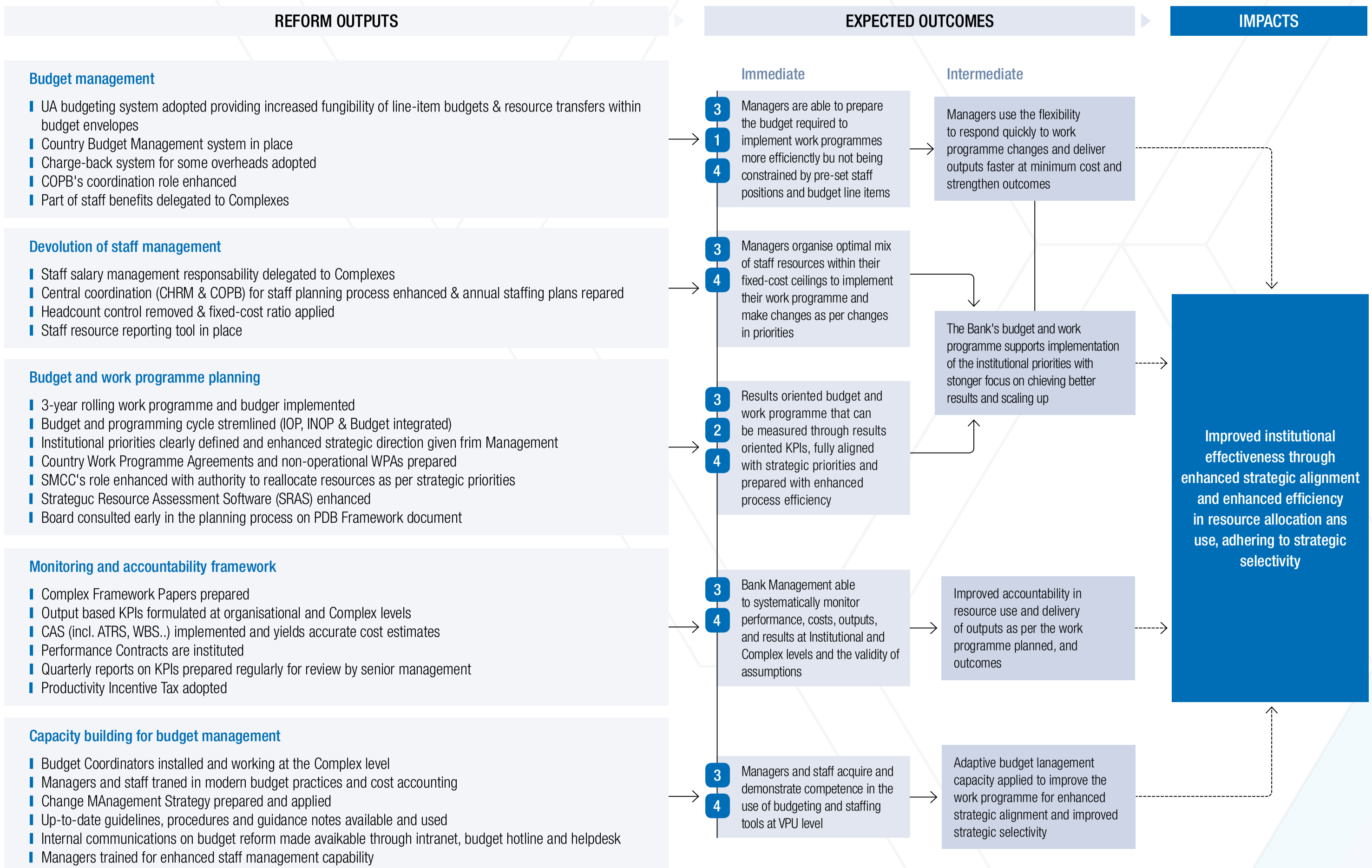
d. Progress is made in supportive cultural and behavioural changes.

The results chain guided the evaluation inquiry which closely followed the evaluation questions stated earlier. The report is structured around the principal evaluation criteria.

Limitations

The evaluation was conducted within the constraints of the absence of reliable data from a Cost Accounting System (CAS) that made full assessment of efficiency and effectiveness difficult. The electronic survey of the stakeholders did not yield a sufficiently high response rate to draw statistically significant inferences. The evaluation, therefore, has not depended solely on the survey data; but was supplemented by information derived from different sources including interviews, document reviews and analysis of hard data. Annex 1 and 2 present methodological details followed for this evaluation. ■

Figure 1: Results chain of internal budget reform undertaken by the African Development Bank



Key assumption: **1** Budget reform measures are coherent with other areas of Bank policy on HR, business and decentralisation. **2** Political and resource context are facilitative to budget reform implementation. **3** Reform measures are implemented following a logical sequencing. **4** Change in rules, processes and tools are accompanied by essential behavioural and cultural changes

Relevance and Coherence of the Budget Reform

This section examines the relevance of the budget reform objectives to address effectively the issues identified by the management through the diagnostic conducted in 2007, and its coherence with the Bank's concurrent overall reform agenda.

Was the Budget Reform in Line with Needs?

The budget reform measures were relevant in addressing the baseline needs identified. In its 2007 proposal on an enhanced budget process, management identified four key problem areas that required immediate attention, viz. i) inadequate strategic focus and laborious business planning; ii) an imprecise accountability framework; iii) highly centralised budget authority; and iv) rigid budgetary control (see the discussion on budget reform in Chapter 1). Management, in consultation with the Board, formulated the following budget reform objectives: a) to strengthen the link between institutional priorities and resource allocation; b) to infuse greater institutional budget flexibility; c) to establish a new system for performance accountability; and d) to build budget capacity throughout the institution.

The broad objectives and measures envisaged by the reform were in line with the management diagnostic, and responded to the suggestions of the Board. Most of the reform measures initiated so far were stipulated in the 2007 management proposal for enhanced budget process. However, several measures were proposed and initiated in the course of implementation of the reform, specifically in the areas of staff management devolution, budget and work programme planning, and monitoring and accountability framework (see Table 2 for the chronology of reform measures). The Bank staff and Board members interviewed concurred that the budget reform responded to a real need for enhancing strategic alignment, institutional flexibility and the accountability framework.

As shown in Box 1 below, the comparator institutions have also faced similar challenges but have responded to them by pursuing very different reform paths. Even though the relevance of specific reform measures adopted by the Bank cannot be judged solely on the experience of the comparators, there are useful lessons to learn from their experiences that are relevant to the reform design in terms of sequencing, potential risks and hurdles, and the preconditions for effective implementation (see Annex 5).

Was the Budget Reform Well-Articulated with other Reform Agendas?

During the design stage, the budget reform was to a great extent articulated and integrated with other components of the Bank's reforms. The budget reform was to be implemented within a dynamic context of broader institutional reform and organisational changes at the Bank. Three different reforms critical to the budget reform were: a) the 2006 organisational restructuring that established three Operations

Box 1: Reform paths pursued by the comparator institutions – at a glance

The World Bank	▌Early adopter of decentralised budget system, dollar budgeting. ▌Most recent reforms mark a return to a more top-down approach to budget and strategy
Inter-American Development Bank	▌Have selectively adopted a number of budget reform measures over the years (decentralised budget, but not dollar budgeting). ▌New Results Based Budgeting methodology implemented as part of IDB-9. What is this this?
Asian Development Bank	▌More conservative approach to major budget reforms, preferring a more gradual and practical approach. ▌Have invested in strengthening strategy as a tool for realigning resources rather than the budget system.
Agence Française de Développement	▌Significant investments in recent years in developing budget tools (time recording system, cost accounting, planning system). ▌New budget planning process introduced in 2014.
African Development Bank	▌Broad organisational reform agenda driven by GCI and ADF commitments. ▌Ambitious and far reaching budget reform with aspiration to go beyond many sister organisations.

Complexes; b) HR reforms including a new human resource strategy of 2007 and an 'updated people strategy' of 2013; and c) the decentralisation strategy including the 2010 roadmap. Coherence of the interrelated reforms that may enable or constrain their successful implementation and sequencing of their implementation were envisaged in the 2007 management proposal and the subsequent documents that pronounced the new reform measures.

The budget reform was coherent with the 2006 organisational restructuring aimed at promoting effective planning processes. The Bank's move towards matrix management necessitated adaptation of budget planning and execution processes. With sector departments now organised within two separate Complexes rather than being integrated within a regionally based organisational structure, the need for a reinforced planning and accountability mechanism became evident. The budget reform proposed a new system of Work Programme Agreements (WPAs) to support cross-organisational planning, keep work programmes aligned with country level strategies and create a strong link of accountability between regional and sector teams. The work programme and budget planning tool SRAS, developed in-house, was expected to streamline this process with the introduction of built-in approval processes. The budget reform also envisaged the full transition towards a Country Budgeting System, wherein resources are first allocated to Regional Departments and then transferred to Sector Departments on the basis of the tasks defined in the WPAs.

Linkage of budget management devolution and staff management devolution was well acknowledged at the design stage. The UA budgeting system, including the removal of headcount controls and use of fixed-cost ratios, and strategic staff planning should ideally go hand in hand. In this context, the 2007 management proposals and subsequent pronouncements on UA budgeting did state the significance of coordinated action to accomplish this goal.

The budget reform objectives are in line with the decentralisation strategy. The Bank's decentralisation strategy has sought to provide greater authority to Field Offices (FOs) in order to establish a more effective and efficient country presence. Budget framework is an important enabler of this objective since it aims to: a) ensure the delegation of budget authority is commensurate with the level of operational responsibility; b) puts in place a planning framework that provides FOs with sufficient resources; c) provides FOs with the flexibility to adapt efficiently to changing circumstances and be responsive to client demands; and d) draws clear links between budget allocation and expected outputs to ensure accountability.

The above analysis shows that the budget reform measures were well conceived with linkages to other institutional reforms being implemented simultaneously as well as the need for sequencing of the reform measures. With this consideration, relevance and coherence of the budget reform measures are rated satisfactory (see Table 1). ■

Table 1: Relevance and Coherence of the Budget Reform Initiative

Evaluation criterion and questions	Rating	
Relevance and coherence		
Was the budget reform in line with needs?	Satisfactory	●
Was the budget reform well-articulated with other reform agendas?	Satisfactory	●
Overall rating	**Satisfactory**	●

Budget Reform Implementation

How Effective was the Implementation of the Budget Reform?

The 2007 management proposal for an enhanced budget reform process envisaged the budget reform to be implemented in two phases. Phase-I was a transitional phase beginning with the 2008 budget cycle. Phase-II was envisaged to overlap with the 2009-2010 budget cycles. The broad scope of the budget reform and specific actions to be taken by the Management and the Board during the two phases are as given in Table 2.

The timeline stated in subsequent management documents has since shifted to an approach based on three phases. This revised timeline makes no changes to Phase-I, but extends Phase-II through 2012 and includes the addition of a Phase-III for Country Budgeting and a host of budget management efficiency measures.

The chronology and sequencing of reform implementation was not fully adhered to. Most of the major enabling actions for setting the reform in motion were adopted as envisaged during 2008-2010. These include the revision of the Bank's Financial Regulations, the formulation of KPIs, the introduction of UA budgeting and the establishment of the Programme Budget Document (PBD) along with the three-year framework. However, progress has lagged in other key areas, notably the roll out of new budget tools and practices and the strengthening of the accountability framework. It should be noted that one of the key reform measures—the removal of headcount control—was effectively reversed due to the difficulties encountered.

The scope of the reform was expanded to include new measures mentioned in subsequent management documents, both implemented and to be implemented. The latter includes the Productivity

Table 2: Reform scope and timeline set out in 2007

Phases	Actions by Management	Actions by the Board
Phase-I	Strategic direction in the planning process Country budgeting and operational priority setting (WPAs) Budget guidelines and procedures strengthening the internal governance Development of accountability and performance framework Devolution of responsibilities Capacity building and change management Organisational setting for managing planning and budgeting	Increasing budget management flexibility Devolution of budget responsibilities to organisational units
Phase-II	Long-term efficiency plan Improved cost measurement (CAS) Multi-year resource framework Fiscal year carryover based on total appropriation UA budgeting	Periodical reviews of the budget process, regulatory, accountability and performance framework

Source: 2007 Management proposal on an enhanced budget process.

Incentive Tax, intended to encourage Complexes to examine ways of improving efficiency and cutting costs; the partial devolution of the management of benefits; and the introduction of a charge-back system for overhead costs, among others. Table 3 presents the specific reform measures proposed and initiated by the Bank, and their status as at present, focussing mainly on timeliness.

Sequencing of the reform measures is crucial for success. It was considered from the beginning that the devolution of budget authority and the introduction of greater fungibility into the budget can only take place in the context of reinforced budget capacity at the Complex level and a robust accountability framework. However, the key aspects of the accountability framework were only implemented in 2014 and the strengthening of capacity and underlying tools is still ongoing. Similarly, successful UA budgeting requires an effective Cost Accounting System which was only put in place in 2014. The CAS is yet to yield data of sufficient quality for managerial use. Table 3 also indicates the issue in sequencing of certain critical reform measures marked as 'delayed.' These delays in implementation of specific measures have, in practice, adversely affected the realisation of expected results from other reform measures.

While the dynamic nature of the reform implementation can be seen as a strength, it has likely led to 'reform fatigue.' The budget reform implementation process was dynamic in nature with changes made to the original plans and new measures proposed and initiated during the course of implementation. This is not necessarily negative. On the contrary, flexibility is needed for such an ambitious and long-term reform programme. It has allowed management to experiment, capitalise on lessons learned and make necessary mid-course corrections. However, as a result, it was found that many stakeholders did not have a clear idea of the budget reform and the full extent of its objectives. The e-survey results have pointed to a decline in the support for the reform and the setting in of 'reform fatigue.' Lack of sufficient and consistent communication, combined with its highly dynamic scope and timeline, have to some extent undermined the understanding and support for reform by the Bank's staff.

Table 3: Budget reform measures taken and their status of implementation – at a glance

Specific Measures Envisaged	Proposed	Initiated	Status	Sequencing
Budget Management Devolution				
Devolving of budget management to Complexes	2007	2007	Completed	
Full fungibility for directly managed budgets	2007	2007	Partly frozen	
Introduction of UA Budgeting	2007	2010	Introduced	
Introduction of "charge-back" system for some overhead costs	2007		Outstanding	Delayed
Introduction of Country Budget Management	2007		Outstanding	Delayed
Staff Management Devolution				
Delegation of responsibility for staff salaries to Complex level	2007	2010	Ongoing	
Elimination of headcount controls, and UA budgeting	2007	2010	Ongoing	Delayed
Augmented staff management capabilities for managers	2007	2010	Ongoing	
Enhanced central coordination (CHRM & COPB) and staff planning	2013	2013	Ongoing	

Specific Measures Envisaged	Proposed	Initiated	Status	Sequencing
Strengthening of reporting tools for staff time resources	2007	2010	Ongoing	Delayed
Partial delegation of staff benefits	2007		Outstanding	Delayed
Budget & Work Programme Planning				
Enhancement of Strategic Resources Assessment Software	2013	2013	Ongoing	
Streamlining of budgeting and programming (IOP, INOP & Budget)	2008	2009	Continued practice	
Multi-annual budgeting and programming framework	2008	2009	Continued practice	
Introduction of Country WPAs & non-operational WPAs	2007	2008	Roll-out in 2015	
Enhanced coordination and analytical role at the central level	2009	2013	2013 - ongoing	
Enhanced strategic direction from Management	2007	2007	Continued practice	
Earlier engagement with the Board during the planning process	2007	2013	Continued practice	
Monitoring & Accountability Framework				
Formulation of KPIs at organisational and complex levels	2007	2007	Ongoing	
Strengthening of performance reporting	2007	2007	Ongoing	
Implementation of CAS to provide accurate costs of outputs	2007	2010	Ongoing	Delayed
Introduction of the Complex Framework Paper	2012	2012	Continued practice	
Introduction of Performance Contracts	2011	2014	Ongoing	
Productivity Incentive Tax	2011		Outstanding	Delayed
Capacity Building				
Strengthen budget capacity at Complex level through BRMCs	2007	2009	Completed	
Training sessions organised by COPB	2007		Ongoing	
Guidance notes and process guidelines	2007		Completed	
Internal communications on budget reform	2007		Ongoing	
Preparation of a change management strategy and training	2007	2009	Ongoing	Delayed

Reform Implementation has lacked adequate high level sponsorship, capacity and coordination. With the level of changes in both the budget systems and institutional culture that the budget reform intended to bring about, high level sponsorship is a key prerequisite. The budget reform implementation has been managed by the Budget Department (COPB) in collaboration with other departments, notably Human Resources (CHRM), under the supervision of the COO's office. However, while inter-departmental cooperation on reform implementation has been intense in most areas, there was no institutionalised body at the level of senior management to oversee reform implementation and provide an influential face for it. This was unlike the practice in the comparator organisations (see Annex 5). Interviews with Bank staff and e-survey responses show that coordination was thus largely unstructured, ad hoc and bilateral. The 2012 review of budget reform carried out by the management had also found that many of the difficulties experienced with staff management under UA budgeting can be linked to a misalignment between the budget reform and the staff regulatory framework.[7] Overall, this reform management approach has contributed to the highly technical nature of budget reform and an inadequate focus on changing behaviours and evolving the institutional culture, shown for example by the difficulties experienced in management buy-in for some reform measures such as the activity time recording system (ATRS).

Has the Budget Reform Delivered its Planned Outputs?

While technical implementation is well advanced, effective implementation is work in progress. The dynamic nature of the reform has made a thorough stock-taking difficult as new measures were introduced in the course of implementation (e.g. partial devolution of staff benefits, a charge-back of some overhead expenses and a productivity incentive tax system started in 2012-2014 PBD). A review of the implementation of measures envisaged as part of the administrative budget reform commenced in 2007 shows that good progress has been made in achieving outputs across most of the five principal reform areas (see Table 4). The technical implementation of measures, however, has not always led to the intended outcomes, and some measures have since been reversed due to the difficulties experienced. The following section summarises the extent of achievements stemming from key reform outputs (see Annex 3 for detailed assessment of each reform measure).

Budget management authority has been devolved and flexibility enhanced, but not to the extent originally envisaged. Major changes were made in 2007 with the revision of the Bank's financial regulations, which devolved significant budget management authority to the Complexes. This was further reinforced in 2010 with the introduction of UA budgeting, under which resources were allocated to organisational units in a total envelope on the basis of resources needed to execute the work programme. Nevertheless, the UA budgeting system has not been fully implemented as originally conceived, with controls remaining on transfers between certain budget lines, and COPB still exercises controls over budget transfers. Reinstatement of position control limited full fungibility of salaries, which is the largest component (74.7% in 2014)[8] of the directly managed budget.

Devolution of staff management confronted setbacks, leading to re-imposition of position control. The devolution of staff management was implemented in two steps. Since 2008, staff salaries were moved from the centrally managed budget to the directly managed budget of Vice Presidency Units (VPUs). With the introduction of UA Budgeting in 2010, managers were able to exercise increased flexibility to adapt their staffing to changing business needs within a pre-defined Fixed Cost Ratio at the Complex level. During the two years that followed, a significant increase in the creation of new positions (295) and a proliferation of reclassified positions (~300) were noted (of which 250, i.e. 80%, were upgrades). The institution still continued to grapple with chronically high vacancy rates. Inadequate understanding and lack of clear guidance and oversight on the application of the fixed-cost ratio led to its inappropriate use.[9] Consequently Senior Management decided to reintroduce headcount control to avoid long term over-commitment and bring down the vacancy rate. A working group established by CSVP in 2013 has developed proposals to restore managerial flexibility and their ability to respond to changing business needs which were lost due to budgetary and headcount controls, while at the same time protecting against unjustifiable 'grade creep' and the proliferation of reclassifications and upgrades of positions and putting in place a more long term strategic approach to staffing.[10] This is yet to be implemented.

Table 4: Overview of Output Delivery by Budget Reform Area

Reform area	Achievements	Rating
Budget management devolution	Measures have been taken to increase the budget management authority of managers and infused more flexibility, but UA budgeting was never really fully implemented and difficulties experienced with staff management led to the re-imposition of position controls.	● (Moderately unsatisfactory)
Staff management devolution	Position control was re-established due to difficulties experienced with budget management following the removal of headcounts, and enhanced staff planning process did not take hold.	● (Moderately unsatisfactory)
Budget and work programme planning	The budget planning and programming process has been enhanced through a number of measures. However, there is room for improvement (e.g. WPAs and Country Budgeting).	● (Moderately satisfactory)
Monitoring & accountability framework	Work remains to be done concerning the quality of KPIs and monitoring and reporting tools and Performance Contracts have only just recently been introduced.	● (Moderately unsatisfactory)
Budget capacity building	Capacity at the Complex level has been reinforced through the creation of Budget coordinators and focal points. Some chronic concerns remain, such as training and support to managers.	● (Moderately satisfactory)

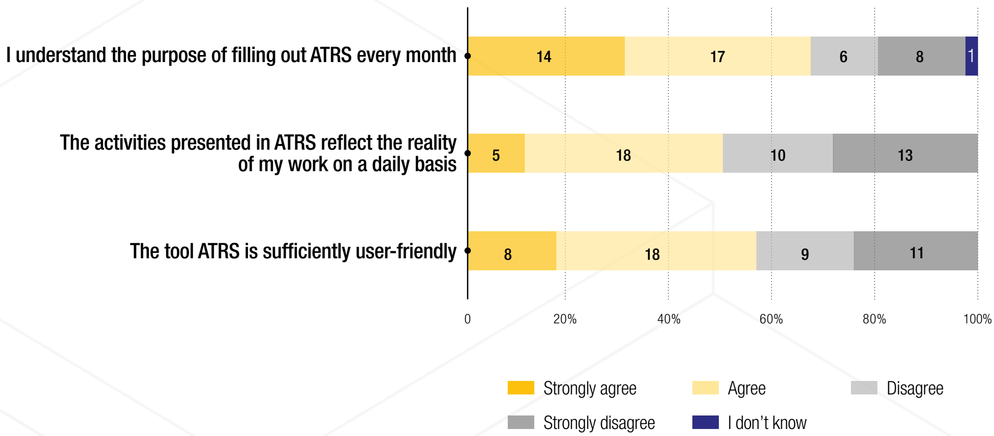
● Moderately satisfactory; ● Moderately unsatisfactory

Work programme and budget planning processes are enhanced and increasingly focused on outputs and results. Notable progress has been made in transforming the budget and work programme planning processes in order to align them better with institutional priorities and create a stronger focus on outputs and performance. The budget and work programme planning cycles were streamlined with the creation of the PBD and a three-year rolling framework. The Complex Framework Paper (CFP), a comprehensive Complex-level document discussing strategic orientation, operational focus and resource needs, was introduced in 2012 to align work programmes better with corporate priorities, and assess resource requirements realistically. However, two key related areas that require further improvement are: a) full implementation of WPA, introduced in 2008; and b) the final transition to Country Budgeting, as originally envisaged.

SRAS is a useful tool fully developed in-house and a major step forward but its reputation has been affected by technical issues. SRAS was introduced in 2006 and has been revised regularly. While the system is unpopular with some staff, particularly among Budget Coordinators and Focal Points who are charged with entering data into the system, it is a huge improvement over the previous system of formulating and arbitrating the work programme using spreadsheets. The system provides an automated, centralised and standardised tool for inputting the work programme from the division level and gradually consolidating it up the hierarchy of the Bank, forecasting resource needs and aligning budget resources and activities with strategic priorities.

The ‘reputation’ of the tool has suffered from minor issues with functionality (such as being user-unfriendly and requiring intensive data input) and the perceived superficiality of the work programme planning process itself. Close to 70% of the e-survey respondents disagreed or strongly disagreed that the tool was user-friendly (see Figure 2). However, these survey results do not reflect the efforts undertaken to improve the system. Interviews with Bank staff revealed the discrepancy in the understanding of what SRAS is used for, and what it can do.

Figure 2: Perceptions on ATRS



The monitoring and accountability framework remains underdeveloped. The Bank has made notable progress in the area of monitoring and accountability, with the introduction of a number of measures, including: WPAs between Regional and Sectoral Complexes; CFPs; Performance Contracts with senior management; and a strengthened monitoring and reporting framework. For the latter, the Bank has notably mainstreamed the use of KPIs and cascaded their application down to the Complex level. A Cost Accounting System has also been put in place and a number of reporting documents revamped. Nevertheless, the accountability framework at the Bank remains underdeveloped. The electronic survey and interview responses show that while technically implemented, the WPAs, CFPs and Performance Contracts are yet to realise their full intended effects. Furthermore, CAS has not begun to yield fully usable data and there is scope for improvement in the use of KPIs. Improvements brought in monitoring and reporting are yet to translate into a proactive, data-driven management culture.

The CAS 'pipe dream' is becoming reality, but some final efforts are needed. When fully operational, it is expected that the CAS will enable the Bank to: i) better estimate the full cost of setting up and administering Trust Funds hosted by the Bank in order to optimise cost recovery and improve cost sharing among the three financing windows; ii) provide unit cost data and cost parameters to facilitate more efficient and effective resource allocation; iii) provide reports with disaggregated cost data, including that for individual units, programmes and deliverables; and iv) enable cost and efficiency comparisons over time, both internally and externally.

"Culture in the Bank is quite old-fashioned. Budgeting is mostly historical. The link between budget and results needs strengthening."
– A Board Member

CAS is still considered to be a 'pipe dream' by many Bank staff and Board members, though its implementation is well advanced. The technical (i.e. SAP Business Warehouse, the Intranet portal providing real time data) and data infrastructure (i.e.

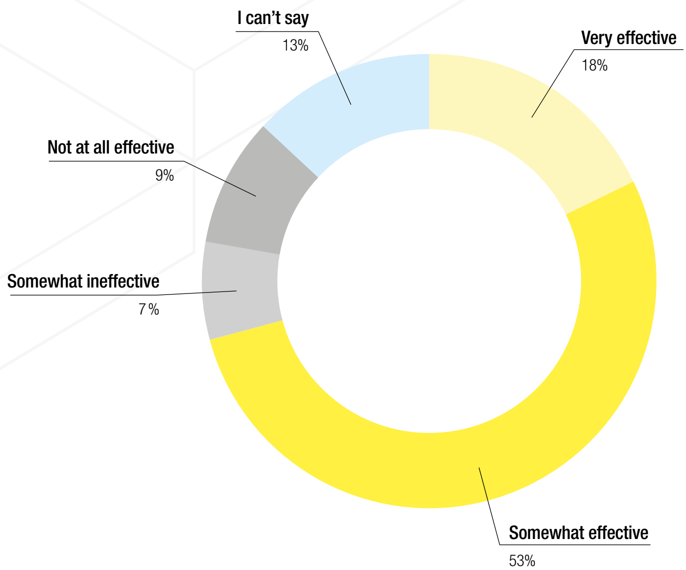
WBS and ATRS) have been fully in place. One of the last remaining obstacles is the quality of the data generated by the system, primarily due to inadequate uptake of ATRS and inappropriate use of WBS activity codes. It was found that 36.7% of total costs were unallocated due to unrecorded time, and UA 4 million in missions, consultants etc. was misallocated to the WBS code 'ADB overhead.' ATRS has garnered widespread discontent and misunderstanding and suffers from both low uptake among staff, and poor quality data due to apparent difficulties in using the system.

It is important to note here that the Bank has not put in place suitable incentives (or disincentives) to encourage uptake. While some soft tactics such as internal monitoring of utilisation rates and 'naming and shaming' among senior management have been tried, no serious attempts are made to introduce harder incentives, such as directly linking utilisation to performance or pay.

Different budget systems are not well integrated, reducing overall system efficiency. Some work remains to be done towards this end such as connecting of SRAS with SAP. This will enable the final budget proposals in SRAS to be loaded into SAP at the beginning of the year. Integration of SRAS, SAP and CAS is essential to allow for the tracking of expenditure and staff time against individual deliverables and notably against the amounts budgeted for the individual deliverables. This can be seen as crucial for enabling CAS to help make a clearer link between the resource allocation and expected outputs and outcomes.

Capacity has been reinforced through the appointment of Budget Coordinators at the Complex level. The Budget Coordinators assigned to the front offices of the Vice Presidents have assumed a critical role in the planning and execution phases of the budget cycle. Along with the Budget Focal Points at the Departmental and Division levels, they have

Figure 3: Effectiveness of Budget Coordinators & Focal Points



also become a 'port of first call' for providing day-to-day support and training to managers and Bank staff. They are also playing a crucial role in supporting the implementation of budget reform on the ground and 'championing' the reform itself. The figures below represent the perceptions about the effectiveness of budget coordinators and focal points in helping meet budgetary responsibilities of Complexes, Departments and Divisions (Figure 3) and providing training and guidance on budget issues (Figure 4).

While no major capacity problems are reported by the Budget Coordinators, the Bank is yet to ensure that Budget Coordinators have a sufficient level of resources and support to effectively carry out their role. The responsibilities of Budget Coordinators also vary somewhat across Complexes depending on say, the level of comfort of senior management in dealing with budget issues and staff turnover. In some Complexes, for example, the Budget Coordinators assume most of the responsibility for preparing the CFP, while in others management plays a much more 'hands on' role. This indicates the need to clearly define the Budget Coordinators' role and responsibilities and ensure that their ability to carry out effectively the assigned role is not undermined.

Training is cited as an area for improvement despite continued efforts by COPB. COPB has accelerated efforts in this area by training new staff during their induction, quarterly training for Bank staff and biannual training for managerial staff on budget principles, planning and processes and performance monitoring, and the continued monthly training and walk-in sessions on ATRS. In spite of these efforts, the percentage of staff who thought that the budget related training was adequate has declined since the 2012 review (Figure 5).

Figure 4: Most important source of training and guidance on budget issues

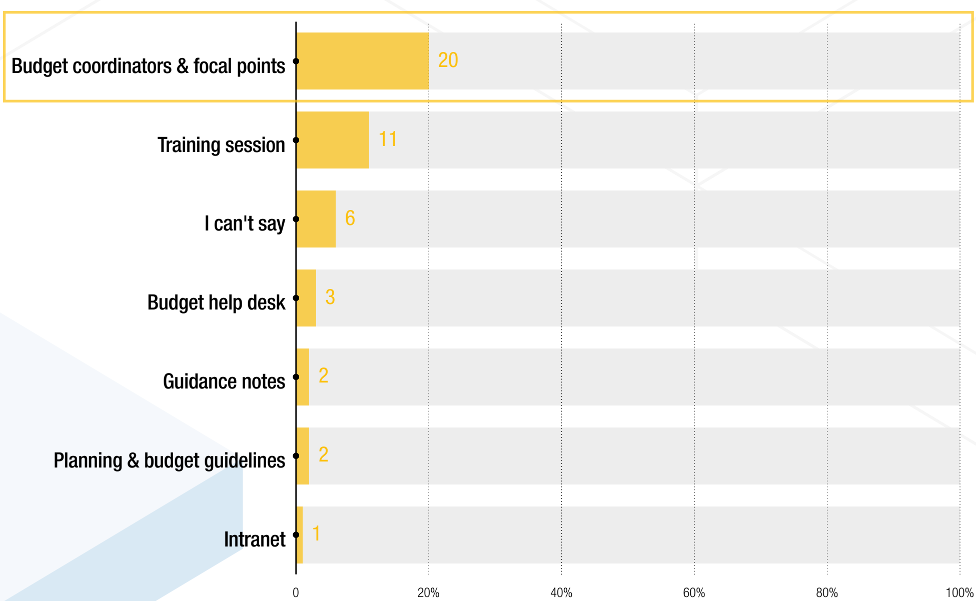
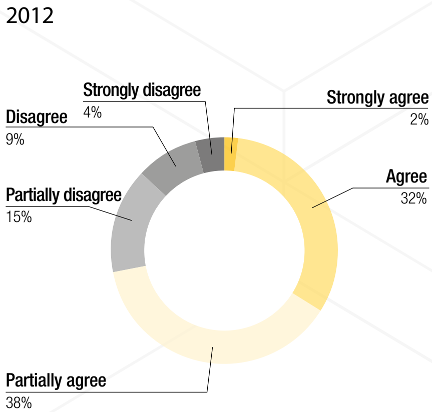
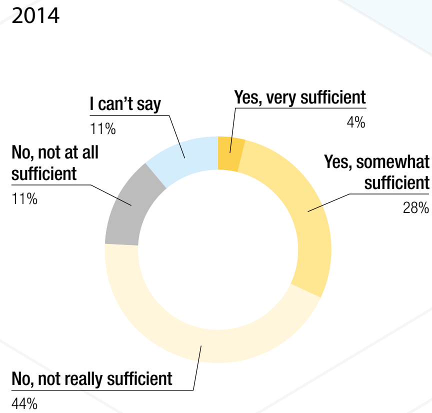


Figure 5: Comparison of 2012 and 2014 results on adequacy of training





Overall, do you feel that you are sufficiently trained to carry out your budget responsibilities?

It is likely that this perception is indicative of the nature of training, which has been more technically oriented and targeted at staff playing a direct role in the budget cycle. It was noted that the training has not adequately emphasised the behavioural and cultural changes needed to make them fully effective and sustainable. However, efforts are already being made in this area I by COPB and Strategy and Policy Department (COSP) who have initiated communication and dialogue with managers and staff across the Bank on budget reform. This includes holding interactive meetings, budget roundtable discussions and retreats with Senior Management Coordination Committee (SMCC) members as both feedback mechanisms and brainstorming sessions. However, achieving behavioural and cultural change is no doubt an objective that will need to be pursued even beyond the completion of reforms.

The Bank has not yet developed a coherent change management strategy to coordinate training and communication efforts and guide future implementation of the reform. Behavioural and cultural change requires consistent and long term effort, going beyond technical aspects, to bring about a common understanding among all staff about results based budgeting (RBB), data driven decision making focussed on performance, the removal of apprehensions about punitive use of data, embracing the values of transparency and accountability by both staff and management, and above all a culture of learning. Yet there is no evidence that management ever adopted a concrete change management strategy to accompany the wide-ranging budget reform measures, although mention was made in the 2007 proposal for enhanced budget process of the intended formulation of such a plan. This may partly explain the divergence between the sustained efforts of COPB and the waning support for the reform as well as a widespread perception concerning the inadequacy of training efforts. The prominent role of COPB in reform implementation also reflects the strong technical orientation of reform. A more coherent change management strategy may help to coordinate better the efforts of COPB, as well as those of senior management and other relevant departments, such as COSP and CHRM, as reform implementation efforts continue in the future in order to improve the integration of the reform which is multi-dimensional in character and hinges on wider communication and change management efforts (see Annex 5 on the experience of the comparator institutions in bringing about behavioural change required for budget reform).

Implementation effectiveness of budget reform measures are rated as moderately unsatisfactory as shown in Table 5. ■

Table 5: Assessment of implementation effectiveness of budget reform measures

Evaluation criterion questions	Rating	
Implementation Effectiveness		
How effective was the implementation of the budget reform?	Moderately unsatisfactory	●
Has the budget reform delivered its planned outputs?	Moderately unsatisfactory	●
Overall rating	**Moderately unsatisfactory**	●

Efficiency of Administrative Budget Management

This section addresses the efficiency of budget management processes (process efficiency) as well as the wider impact of the reform on institutional efficiency. Process efficiency is assessed by looking into the processes of budget and work programme planning, staff planning, monitoring and reporting, and the ease of day-to-day management of the budget. Institutional efficiency is assessed with regard to a range of factors, notably components of growth in administrative budget, management of fixed-cost ratio and vacancy rates, budget use pattern, budget execution rates, administrative costs per lending and disbursement, ratio of projects to the executed administrative budget, and the proportion of budget allocation to operational activities. Data and information gathered through surveys, interviews, published documents as well as data extracted from SAP have been appropriately used for the analysis.

Are budget planning and execution activities efficient?

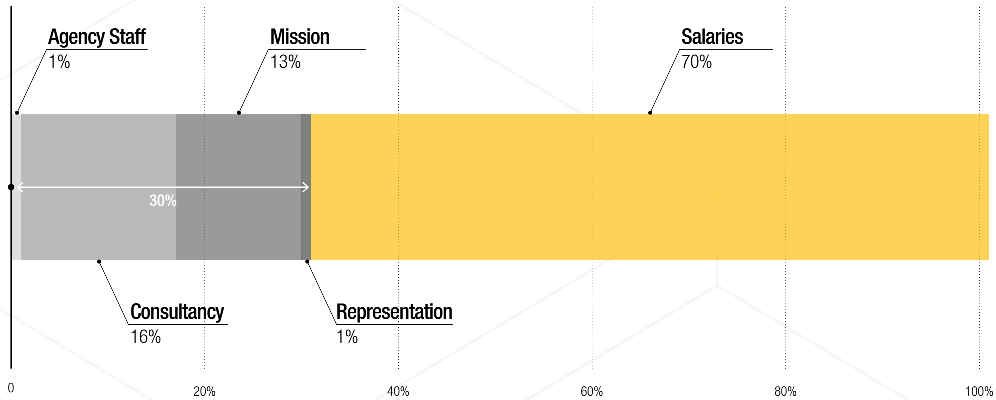
The key processes examined for the assessment of process efficiency are: i) the budget and work programme planning process; ii) the staff planning process; iii) the monitoring and reporting process; and iv) the budget transfer process.

The budget and work programme planning process does not need fundamental changes but there is significant scope for improvement. The budget and work programme planning process at the Bank is considered burdensome by the staff involved in the process. Moreover, the annual planning exercise has only a limited effect on the final reallocation of resources. With the re-imposition of position control, the budget planning process in reality has a direct effect only on a maximum of 30% of the directly managed budget (i.e. agency staff, consultancy, mission and representation) as shown in Figure 6. This inevitably begs the question: is it wise to have such a burdensome and complicated planning process that ultimately has only a marginal impact on resource allocation?

Analysis of the budget and work programme planning process of the Bank and the comparator organisations indicate five areas where there is scope for efficiency gains.

a. *Long, decentralised and transaction-intensive process:* Of the e-survey respondents, about 50% in general, and 80% of the non-budget staff in particular, found that the budget and work programme planning processes were burdensome. This was confirmed by the staff during consultations. This evaluation estimates[11] that the Bank's budget planning process takes over 22,000 person-days or roughly 92 full staff time equivalents for the Board, management and resource personnel taken together. Comparisons with comparator organisations show that while the processes are similar in overall duration for most, those are relatively less time-intensive (see Figure 7 and Annex 5). It should be noted, however, that the Bank's planning approach is much more decentralised and consultative than those in the comparator organisations, which inevitably entails longer duration.

Figure 6: Composition of the directly managed budget by major budget line

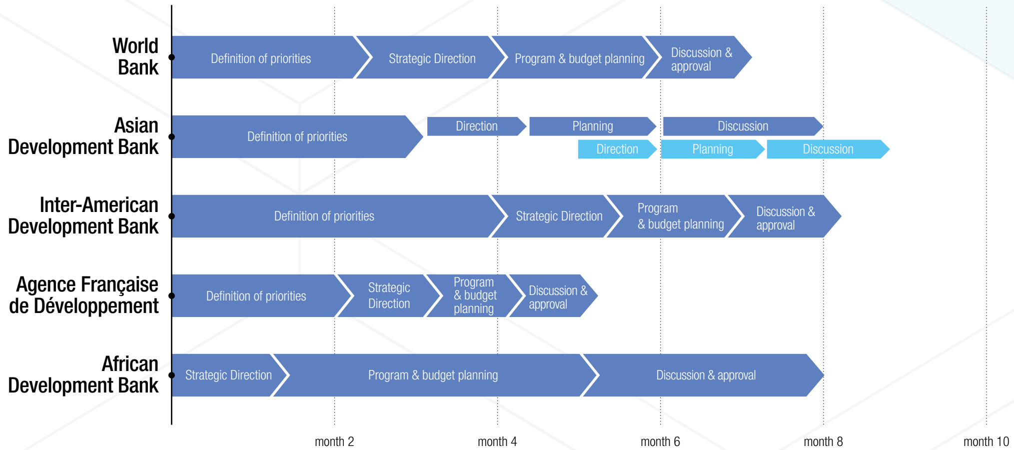


b. Relations with the Board: Three potential issues are involved in the relations with the Board: i) the timing of consultations; ii) the nature of discussions; and iii) the configuration of Board meetings. The Board is consulted once the first version of the Budget Framework Document is prepared (in June). There is little consultation and strategic input sought at the outset of the planning process. The quality of the dialogue with the Board during the planning process could be improved in order to foster a more holistic engagement that extends beyond overall budget growth and thus avoid the need for micro-managing by the Board. The Board members consulted for this evaluation expressed the need for early engagement of the Board during the planning process. As for the format of consultation, the current practice is to consult the full Board, rather than to hold discussions within the framework of a specialised committee. This may not be conducive to more informal and pragmatic discussion, the framing of key decisions and the prioritisation of choices. However, it has been pointed out by some Bank staff that this subject has long been debated within the Bank, and the resolution has been to maintain the status quo. Currently, the Board's involvement in the budget process is both extensive and intense, making it difficult to delegate budget management responsibilities to a specialised committee.

"The Board has been requesting for adequate engagement with budget. We asked for quarterly reporting on status of budget but the reporting is not very adequate in terms of information, and it has not been timely."
— A Board Member

c. Budget allocation priority-setting at the senior management level: Strategic direction is crucial to ensure alignment of the budget with institutional priorities, and it is primarily the responsibility of Senior Management to define

Figure 7: Budget and work programme planning processes of comparators



Note: This diagram for the Asian Development Bank is distinct from others basically because of the difference in the issuance of call to launch for Work Programmes and distribution of Work Programme guidelines (Month 3) and the Budget Preparation Guidelines (Month 5). See Annex 5 for an overview of budget and work programme planning processes of comparator organisations.

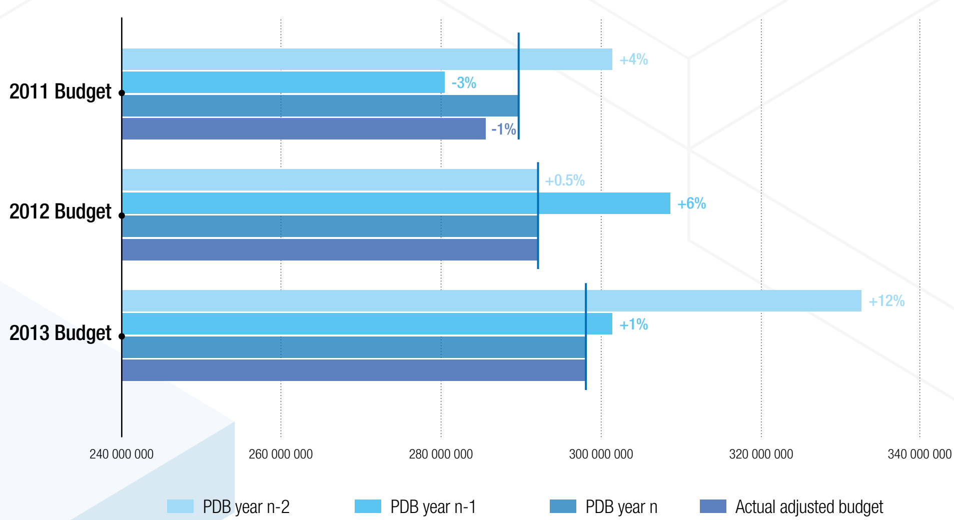
the institutional priorities and initiatives that affect budget allocations for the next fiscal year and beyond. The planning process at the Bank is characterised as a bottom-up, iterative process with key arbitration decisions focused on the Complex level (SMCC).[12] There remains little up-front strategic decision-making at the senior management level. The work programme and accompanying budget are arbitrated and consolidated at each organisational level of the Bank, culminating in discussion at the SMCC, where the Complex Framework Papers and PBD Concept Note are presented and discussed before being sent to the Board. There is little evidence to demonstrate that the introduction of the budget baseline has succeeded in ensuring greater rigour in the planning process. Interviews with the Bank staff reveal that there is little strategic input to the baseline number, which is intended primarily to serve as a reference and encourage greater prioritisation and strategic trade-offs. These factors combine to affect negatively the overall effectiveness of the process.

"From a Board's perspective, we need to get the balance between enough information and too much too high level information where we cannot get into the granularity of the issue."
— Another Board Member

d. The multi-annual budget framework: The multi-annual budget framework was put in place with the introduction of the combined Work Programme and Budget Document. Two issues can be highlighted with respect to the use of the multi-annual budget framework of the Bank: i) the multi-annual perspective does not appear to have been completely internalised; and ii) detailed budget planning for the years N+2 and N+3 is highly time consuming and does not represent added value. Bank staff and Board members have pointed out that the planning for years N+2 and N+3 was somewhat superficial. Furthermore, the provisions can often change radically from one year to the next, undermining the objective of providing greater visibility to managers during the planning exercise (see Figure 8). Rather than providing an overall indicative budget scenario for the coming years, the PBD includes a detailed budget for those years.

e. *Integration of Trust Funds and other external resources:* Since 2006, the scale and scope of the AfDB trust fund portfolio have increased substantially. Annual contributions to the funds grew from UA 40 million (with disbursements of UA 6.5 million) in 2006 to UA 85 million (with disbursements of about UA 40 million) in 2011. During this period, the portfolio has evolved from mainly bilateral funds to over 75% thematic funds. Over 2014-2016, it is estimated that UA 724 million from Untied Bilateral and Multi-Donor Thematic Trust Funds will be made available to fund the costs related to technical assistance personnel assigned to the Bank, as well as projects, studies, training and other institutional capacity building, and other technical assistance activities. However, this increasing source of external resources is not integrated into the planning process. There is no mention of Trust Funds in the Complex Framework Papers, and the PBD has only a small section on Trust Funds providing indicative global amounts. While it is technically difficult to make projections on Trust Fund resource utilisation, providing an overview of projections (e.g. by thematic area or organisational unit), would allow for more holistic strategic decision-making. However, the reporting documents (particularly the annual retrospective reviews of administrative and capital expenditure

Figure 8: Evolution of budget forecasts within multi-annual framework



Source: Programme and Budget Documents

budget and performance, and to some extent the quarterly budget and performance reports, do include a comprehensive overview of Trust Fund activity.

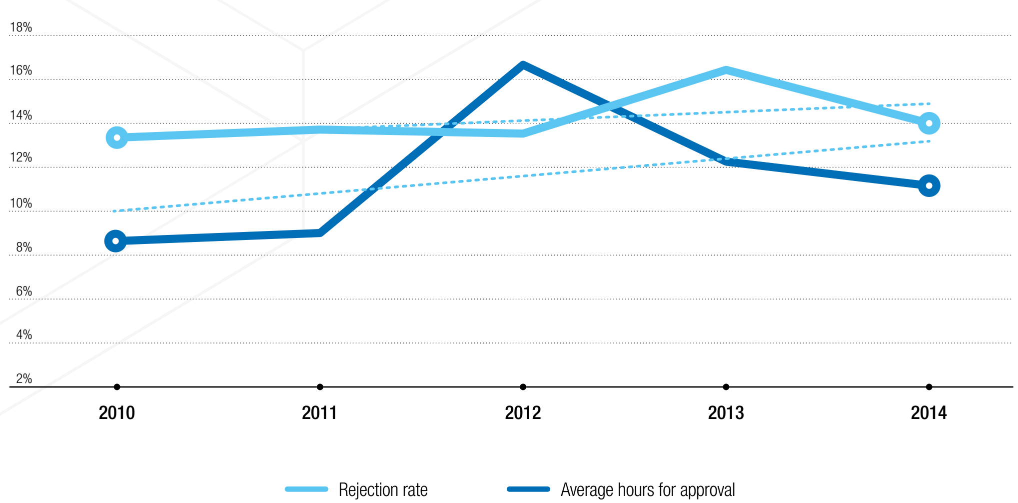
The enhanced staff planning process halted since 2012. With the re-imposition of headcount controls following difficulties experienced with the introduction of UA budgeting, the enhanced staff planning process is largely discontinued. Instead, the First Vice-President's Complex keeps a reserve of vacant positions that are allocated according to institutional priorities and strategic importance. Staff planning has been carried out in an ad hoc manner since 2012, and the Bank staff interviewed noted that the process for obtaining a new position or upgrading an existing one is long and arduous.

Monitoring and reporting processes are burdensome due to non-implementation of CAS. The budget reform sought to reinforce the monitoring and reporting framework through the introduction of the CAS. This system was also envisaged to provide efficiently analytical data on budget expenditure, which even now is largely prepared manually by managers and COPB. The partially functioning CAS with its underlying systems (ATRS and WBS) is yielding reporting data of insufficient quality; it is not delivering on its stated objectives.

The reform has however improved the efficiency of managing the budget on a day-to-day basis. One of the principal objectives of the budget reform was to ensure sufficient institutional flexibility. To this end, budget management authority was devolved and budget transfer and fungibility rules revised to allow for greater flexibility in day-to-day budget management. These measures have had a positive effect on the efficiency of budget management.

Whereas prior to the reform high level approval was needed for even minor adjustments to budget allocation between budget lines and organisational

Figure 9: Rejection rate and average hours for approval for budget transfers (2010–2014)



Source: SAP

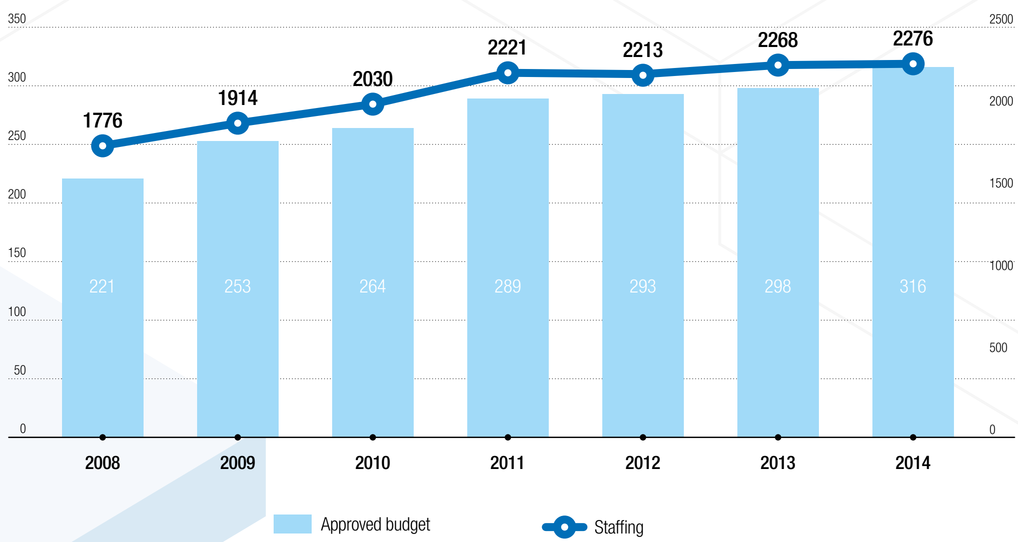
units, new measures introduced have greatly increased the ability of managers to shift budget resources.[13] It has been observed that the rejection rate and average hours for approval for budget transfers (between different cost centres) have increased overall since 2010. However, these figures have begun to drop since 2013 and 2012 respectively (see Figure 9).

Are resources used efficiently?

The improved budget process proposed by Management in 2007 sought to foster efficiency in the use of scarce budgetary resources. Efficiency was a highly transversal objective for the reform, with a number of measures expected to have a positive impact on the efficiency or resource use at the Bank, including enhanced monitoring and reporting, a reinforced accountability framework and revamped planning processes. Adaptive management of the administrative budget is expected to enable better allocation of resources and a shift in resources to the front-line and deliver more efficient monitoring of resources allowing managers to react efficiently to achieve better results.

This section examines institutional efficiency by looking into the performance of a range of key indicators including management of fixed-cost ratios, the budget execution rates, administrative cost per volume of lending and disbursement, the amount spent on operational and non-operational activities, etc. In general, the budget reform does not appear to have had a notably positive impact on institutional efficiency, as reflected in resource use efficiency, with the exception of the budget execution rate. In fact, many of the trends observed are negative although it is difficult to draw a clear causal link with budget reform. Figure10 shows the overall evolution of the administrative budget over the period examined.

Figure 10: Administrative budget (UA million) and total staffing (2008–2014)



Source: PBDs and HR data extractions

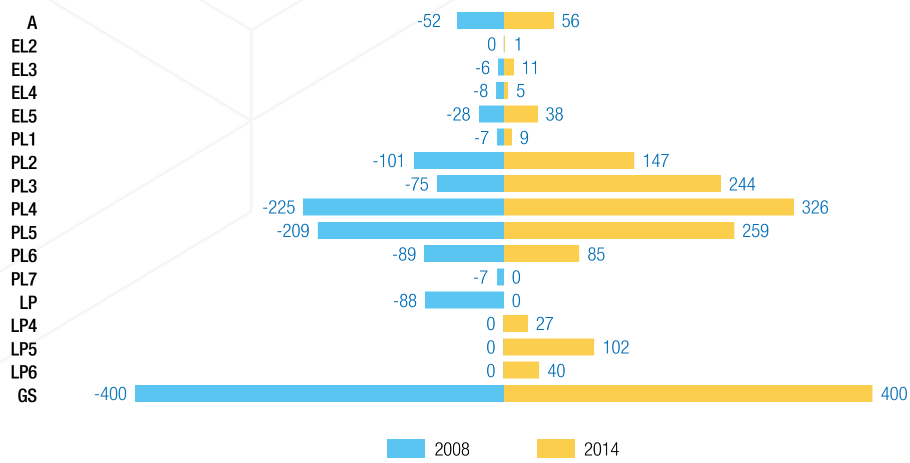
The shift to Fixed-Cost Ratios was not well-managed, leading to high vacancy rates, grade creep and an increasing staff-lending volume ratio. Removal of headcount control and introduction of Fixed Cost Ratios as part of UA budgeting in 2010 led to a series of unexpected effects. Within two years of implementation, a significant increase in creation of new positions (295) and the proliferation of reclassification of positions (around 300, of which 80% were upgrades) was observed (see Figure 11). This further contributed to the growth in the staff number, which has virtually doubled compared with the pre-reform period.

While some abuses may have occurred, the reform was not sufficiently accompanied by clear guidelines and planning tools for managers, as noted in the 2012 review. Management responded by freezing new positions. However, the Bank has been exposed to important long term financial liabilities. Bank management is now considering measures to contain the growth in the headcount while at the same time making room for additional human resources, and giving managers enhanced flexibility.

Another indicator of institutional efficiency is the staff to lending volume ratio which is showing a rising trend since 2009 (see Figure 12). Interviews revealed that the declining staff-lending volume ratio in 2009 was driven by the spike in post-crisis, counter-cyclical lending including a large increase in policy based lending.[14] However, this artificial inflation in lending activity quickly subsided. Accordingly, the number of staff per million lent has almost tripled since 2009 and was back above its 2008 level in 2013.

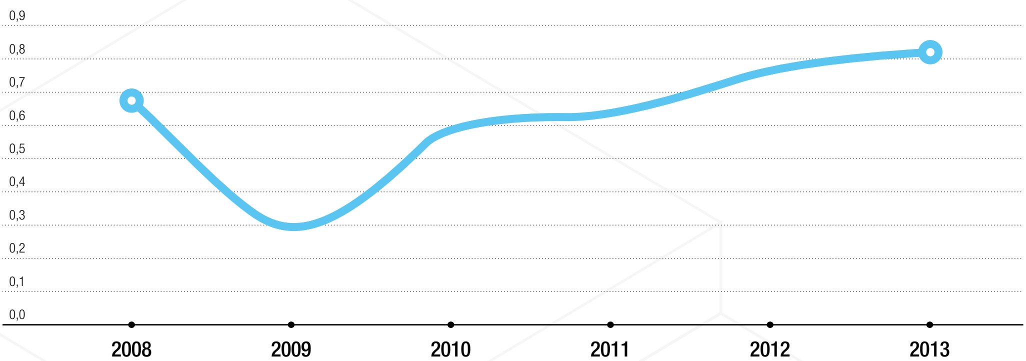
The practice of spend-it-or-lose-it and the underdeveloped accountability system contribute to the fourth-quarter 'spending race.' The increased flexibility in resource use brought about by budget reform has not changed

Figure 11: Allocated staff positions by grade (2008 & 2014)



Source: CHRM HR data extract

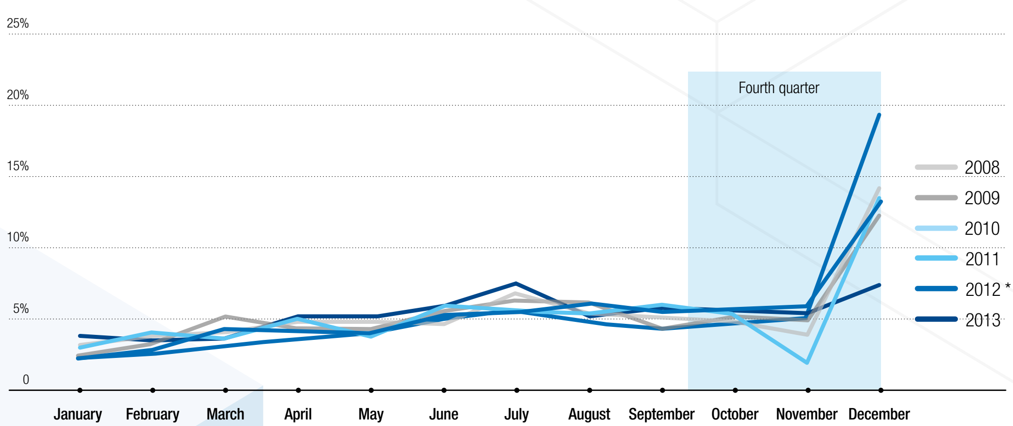
Figure 12: Number of Bank staff per lending volume (UAM)



Source: Annual retrospective reviews of the Administrative Budget and performance

the practice of 'spend-it-or-lose-it.' This fact, together with lack of robust monitoring tools to ensure accountability, is contributing to a spike in the fourth quarter expenditure (see Figure 13). The fundamental cause of this trend is the bunching of operations in the fourth quarter and the threat of losing the allocated budget unless committed before the end of the financial year. This possibility creates an incentive to commit budget in manners that may not contribute to the execution of the work programme in order to avoid being 'penalised' in the following year.

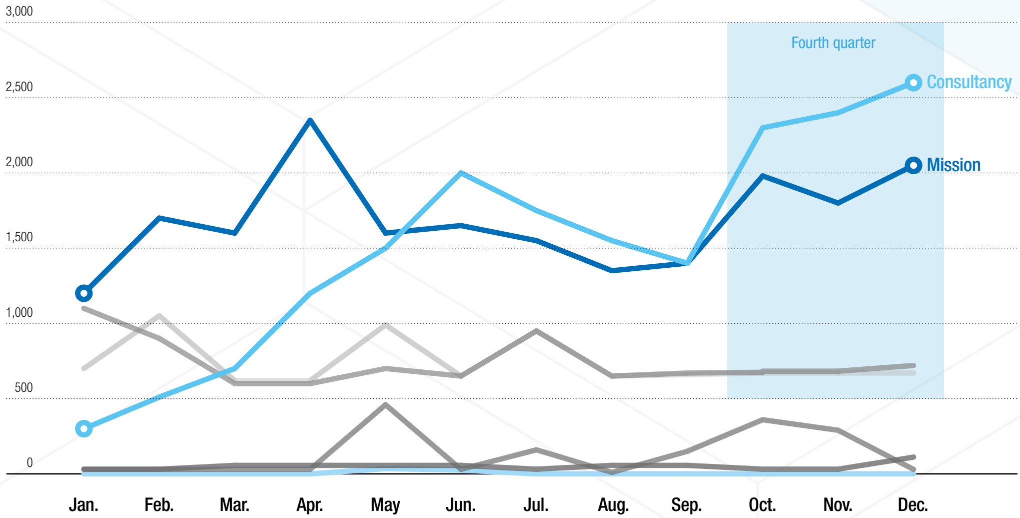
Figure 13: Budget execution rate by month (2008 – 2013)



The particularly high expenditure in December 2012 was impacted by the provisions for the Staff Retirement and Medical Benefits Plans

Source: Retrospective review of the 2012 administrative expenditure budget and performance (2008 – 2012); SAP (2013)

Figure 14: Month-wise spending on consultancy and mission (2008)



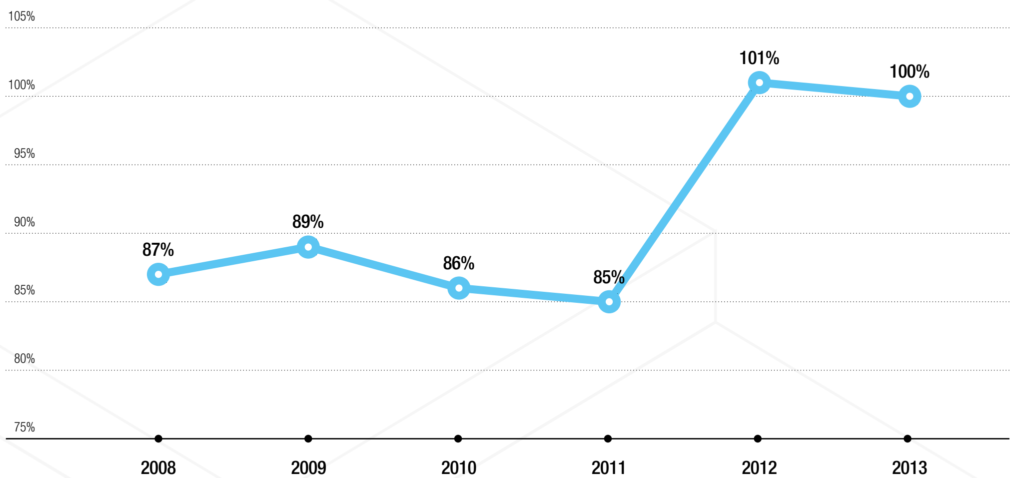
This potentially unproductive end-of-the-year spending surge can be controlled by effective monitoring of progress against objectives, in addition to monitoring disbursement ratios at Complex / Unit levels that would allow full visibility on progress and pro-active management. The full implementation of CAS is expected to yield relevant monitoring data that would permit more proactive control over expenditure involved in executing the work programme and may help to tighten accountability for fourth quarter spending and smooth out expenditure across the year.[15]

Budget execution rate has improved considerably since the beginning of the reform. The Bank has struggled with a chronically low budget execution rate. Since 2011, however, the budget execution has improved dramatically (Figures 15 and 16). While a number of factors may have contributed to this improvement, the budget reform has certainly contributed to this increase. The reform has notably introduced greater flexibility into budget management, allowing managers to shift budget resources more efficiently to where they are needed. Nonetheless, r without cost accounting data, it is difficult to determine the extent to which the resources 'unlocked' through increased budget management flexibility have been used in line with the work programme. The 4th quarter spike in spending on consultancy and mission costs (Figure 14) illustrates that increased flexibility could also enable potentially abusive spending. It may be noted that in 2008, 34% of the mission and consultancy budget was spent in the 4th quarter, and during the 2008-2013 period, an average of 31% of the directly managed budget was spent in the 4th quarter.

"Cost saving is not encouraged. If we have not spent last year, do we get more this year? Very unlikely..."

- A Director

Figure 15: Budget execution rates (2008-2013)



Source: SAP extractions

Trends in directly managed budget show positive change in budget execution rates mainly for salaries, mission, consultancy and representation. However, the average execution rates for these four budget lines in 2013 was only 88%, in spite of the 4th quarter spending surge, significantly below the Bank's global budget execution rate. There has been improvement in the centrally managed budget, particularly benefits, which has been the principal driver behind improvements in budget execution at the institutional level.

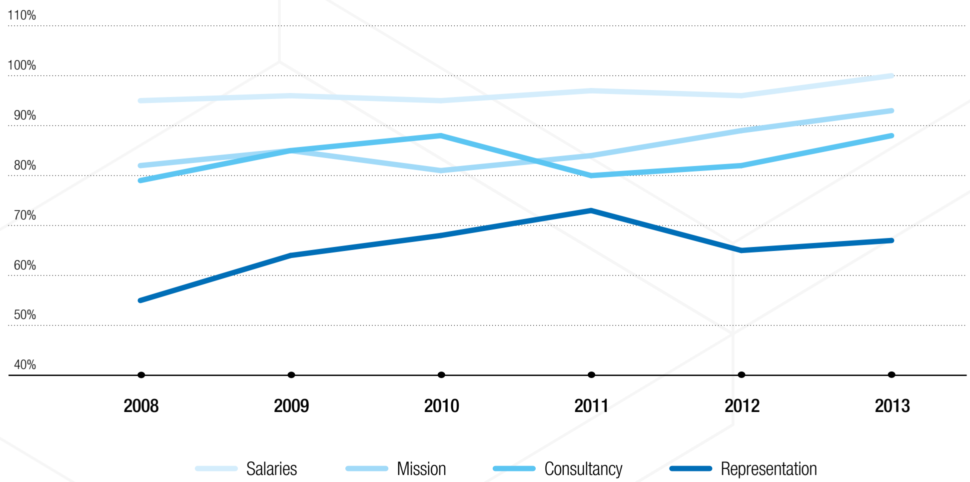
Administrative costs (UA million) per lending and disbursement show an increase since 2009. This is one of the indicators used by management to capture efficiency in relation to administrative costs associated with both lending and disbursement processes. Administrative costs per lending and disbursement volumes have continued to increase since 2011 despite relatively constant levels of lending (see Figure 17). This points to the increasing administrative costs associated in large part with increasing staff costs (salaries and benefits).

The ratio of projects to the executed administrative budget shows no improvement. The amount of administrative budget per project lending (ADB, ADF and NTF together) decreased significantly with the expansion of lending during the onset of the economic crisis, before increasing again with the falling number of projects. This figure has since decreased somewhat, but remains just slightly below 2008 numbers in nominal terms (see Figure 18).

The percentage of the administrative budget allocated to operational activities has increased in recent years as per the definition of operations followed by the Bank, after a steady decline during 2008-2011.[16] The Bank has however revised the definition of 'operations' by assigning a ratio to represent the extent of activities directly contributing to operations even by the organisational units traditionally considered as non-operational. Using the former definition, it was found that during the 2008-2013 period, there was a decline in the percentage of administrative budget earmarked for

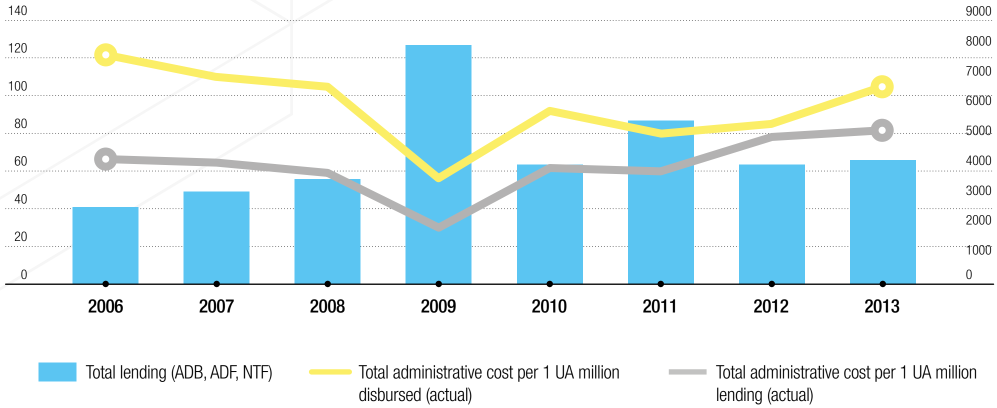
Operations till 2011 but it began to show a positive trend thereafter (see Figure 19). This is in line with the stipulations of the 2007 management proposal on an enhanced budget process and the Bank's Medium Term Strategy, which stressed the need to increase the ratio of administrative budget for operational activities to non-operational activities, in order to enhance the operational income of the Bank and for the effective implementation of the strategic plan.

Figure 16: Final budget execution by selected directly managed budget lines (2008-2013)



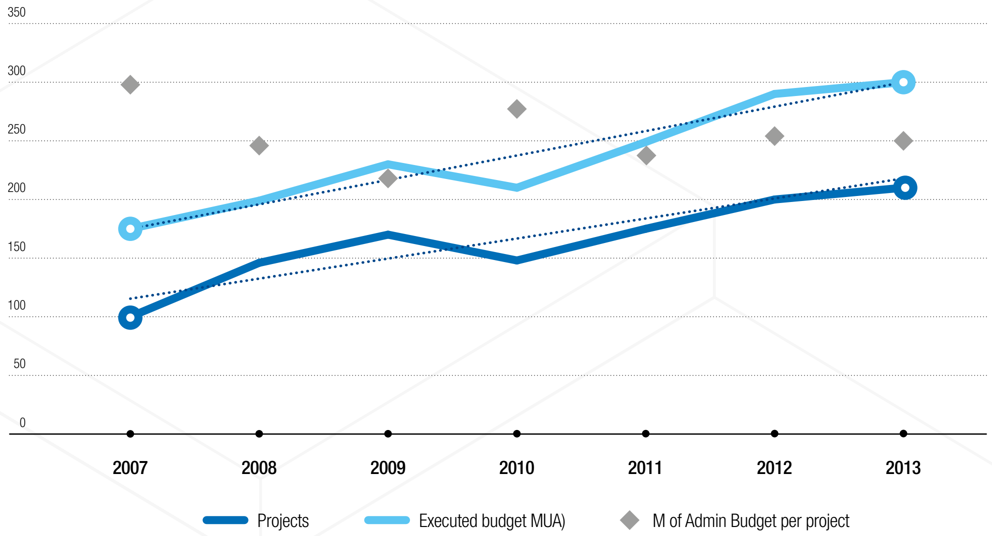
Source: SAP extractions

Figure 17: Administrative costs per lending and disbursement volumes ('000 UA) and total lending (UA million) 2006-2013



Source: Annual retrospective reviews of the administrative budget and performance

Figure 18: Trends in the executed administrative budget (MUA), the number of projects and the ratio of projects to administrative budget (MUA) (2007 – 2013)



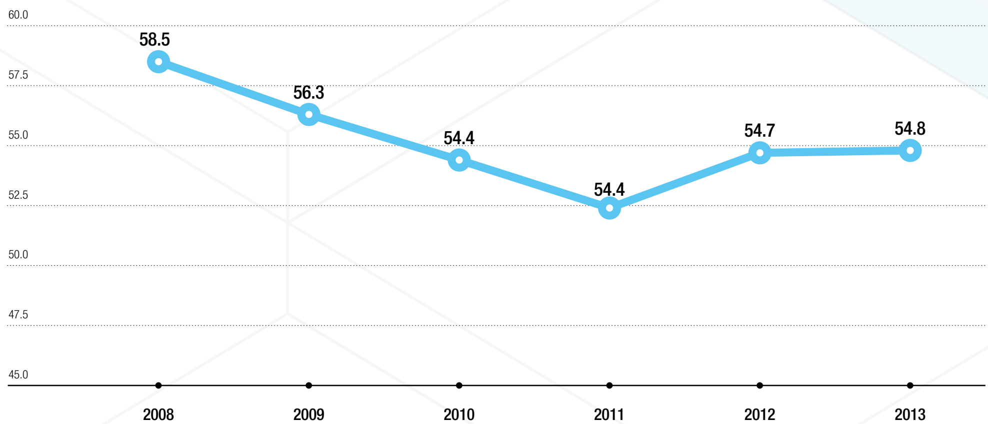
Source: Annual retrospective reviews of the administrative budget and performance

Institutional efficiency is likely to be enhanced by the effective use of new budget tools. At the moment, it is difficult to draw conclusions of the effects of the budget reform on institutional efficiency because some of the key measures (i.e. CAS) are still not yet fully operational. These tools are essential for strengthening the monitoring and reporting capacity and allowing for internal and external benchmarking and analysis of the evolution of various costs.

Efforts to strengthen transparency and accountability have intensified in recent years. In 2013, the Bank launched the Good-to-Great transformation initiative, which has resulted in a number of achievements, including the streamlining of some business processes and the creation of the Delivery and Performance Management Office (COPM). This unit was established to monitor and maintain pressure on delivery through transparent reporting and quick diagnostics on performance. One of the flagship products of the COPM is the Executive Dashboard. This factual report is discussed at SMCC and PEX meetings and has become a useful management tool for pro-active performance management and to reinforce transparency and accountability across the institution. Consequently, it is likely that full operationalisation of CAS in 2015 will strengthen the analytical capacity of the COPM, as well as the Budget Department, and further strengthen the link between resources and results and increase pressures for efficiencies by providing for the reliable tracking of costs. It is also likely that ATRS will prove to be a highly relevant tool for controlling staff cost increases by allowing for the calculation of unit costs for different types of activities.

Efficiency of administrative budget management with respect to process efficiency and institutional efficiency is rated as moderately unsatisfactory, as shown in Table 6. While there are some evident

Figure 19: Percentage of budget expenditure (centrally and directly managed) for operations during 2008-2013



Source: SAP extractions

improvements in process efficiency in the areas of day-to-day management of budget, several areas need attention including the changes needed in the budget and work programme planning process; a renewal of halted staff planning, and the partial implementation of CAS. Institutional efficiency indicators have shown some positive signs, notably improvement in budget execution rates due to the flexibility brought in by the reform; an improvement in the allocation for operational activities in recent years; and, lately, developments in strengthening accountability and transparency and a results-oriented and data driven management culture.

Among the major areas requiring further improvement are the inefficiencies caused by the inappropriate use of fixed-cost ratio; rising staff to lending volume ratio, persisting 4th quarter spending surge: and a rise in administrative costs per lending together with disbursements and problems associated with the ratio of projects to the executed administrative budget. Overall, institutional efficiency of administrative budget management is rated as moderately unsatisfactory.

Table 6: Assessment of budget management efficiency

Evaluation criterion and questions	Rating	
Efficiency		
Are budget planning and execution activities efficient?	Moderately Unsatisfactory	●
Are resources used efficiently?	Moderately Unsatisfactory	●
Overall rating	**Moderately Unsatisfactory**	●

Effectiveness of Administrative Budget Management

Effectiveness is analysed by looking into the extent to which major expected outcomes of administrative budget management reforms have been achieved including: i) improvement in the strategic alignment of the budget resource allocation; ii) supporting an output-based resource allocation system; iii) ensuring sufficient institutional flexibility; and iv) any improvement in monitoring, reporting and strengthening of the accountability framework. An important point to note here is that the Bank's administrative budget reform initiated in 2007 is still ongoing and several key reform measures are yet to be fully implemented while some are yet to be initiated (see status of reform implementation in Chapter 3). Therefore, it would be too early to expect the realisation of certain higher level outcomes with respect to f administrative budget management reform.

To what extent does the budget system support a greater alignment with the Ten-Year Strategy (TYS)?

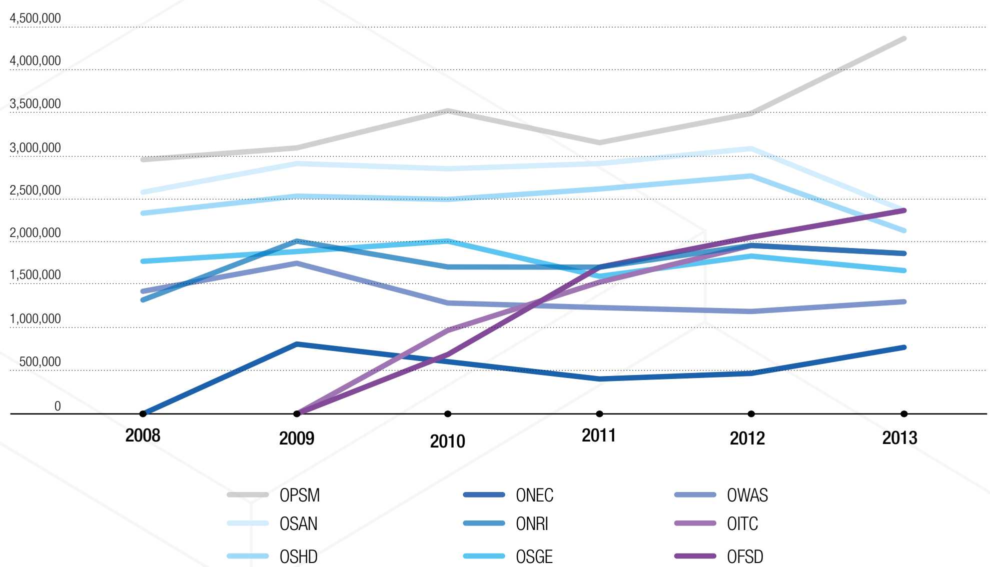
In order to strengthen the link between the institutional priorities and the resource allocations the Bank took a number of steps comprising: i) multi-year budgeting with a three-year rolling work programme and budget framework; ii) the alignment of budget and work programme planning processes through the introduction of the combined programme and budget document (PBD); iii) the strengthening of country budgeting; iv) the reinforcement of strategic priorities within the budget planning processes through new guidelines and other mechanisms; and iv) enhanced tools to facilitate the alignment of the budget with the institutional priorities.

To assess the effectiveness of the reform in this area, the evaluation examined: i) the coherence of the allocation of budget resources with evolving institutional priorities; ii) the quality of the linkages between budget allocation and the work programme; and iii) the drivers of budget allocation.

Positive changes in strategic realignment of budget resources have been observed. The analysis of trends in workload budget of different operational departments during 2008-2013 provides clear indications of a positive change with respect to strategic alignment (see Figure 20). The emerging new priority areas such as climate change (ONEC), private sector (OPSM), financial sector development (OFSD) and transport and communication (OITC) have seen strong growth, while other traditional areas such as social development (OSHD) and agriculture and rural development (OSAN) have experienced decline. Some sectors have registered marginally positive or negative growth or remain neutral although substantial resources continue to be invested. Most of these trends are in line with the Bank's medium- and long-term strategic priorities.

A general perception that the link between work programme and budget allocation is weak remains. There is a perception among the Bank staff that the final budget allocation does not reflect the work programme, but continues to be driven primarily by historical trends. While this is contradicted by the positive changes observed at a macro-level, there is some evidence from the

Figure 20: Trends in budget expenditure (workload) by Sector Departments (2008-2013)



Source: SAP extractions

online survey and interviews that a lack of strategic dialogue at the senior management level and reinforced communication at different levels may be causing the perceived disconnect between the work programme and budget allocation.

The e-survey results show that 58% of respondents outside of COPB (including Budget Coordinators) do not agree that budget resources are allocated according to work programme requirements. Partly this is a perception issue which can be addressed through reinforced communication, yet negative perceptions are reinforced in the following observations by the staff (expressed during interviews and surveys):

- The CFPs are approved without substantial dialogue or debate at the senior management level.
- Budget baseline is more influenced by historical budget execution than actual performance and evolving future needs.
- The long and complex budget arbitration process, more often than not, leads to demands for cuts which are sometimes seen as arbitrary.
- Several managers and directors reported that they did not receive the entirety of their budget allocation at the beginning of the year and were often uncertain as to whether and from where the rest of the budget would come.

"We do not have a perfect view of the administrative budget until the end of the year. With budget released partly at the beginning, partly at the middle and then a reallocation towards the end of the year, it is quite difficult to plan anything."

- An Operations Director

To what extent does the budget system support an output-based resource allocation?

Planning processes are not sufficiently aligned with strategic priorities. This is borne out by the following observations from the Bank staff: a) SRAS data on budget alignment is of limited use in strategic decision-making; b) there is little top-down input of budget priorities in the planning process; and c) there is no clear feedback loop to take into account effectively development results in the planning process.

"No performance assessment is done to assess results in order to inform the budget process."
– A Vice President

There is a lack of reliable data to test whether the reform is beginning to have an effect on aligning budget resources with strategic priorities. SRAS data provide only a snapshot of alignment for the initial proposed budget, which often do not correspond with the executed budget. Budget resources may in reality shift between strategic priorities throughout the course of the year.

The budget and work programme planning process at the Bank is highly decentralised and bottom-up compared to the practices in other MDBs. While such an approach has its advantages, it may not sufficiently infuse clear budget priorities during the planning process. The Strategic Directions Note (SDN), which is intended to set the framework and give direction on the planning and budget exercise for the coming planning period, ultimately includes little discussion of how the Bank will shift resource allocation in view of achieving the objectives in the Bank's TYS. The SDNs, prepared through a bottom-up process, were focused almost exclusively on budgetary issues, notably constraints. The 'budget baseline' introduced in 2012 may represent a first step towards striking a balance between a bottom-up client driven approach and a more strategic, centralised approach.

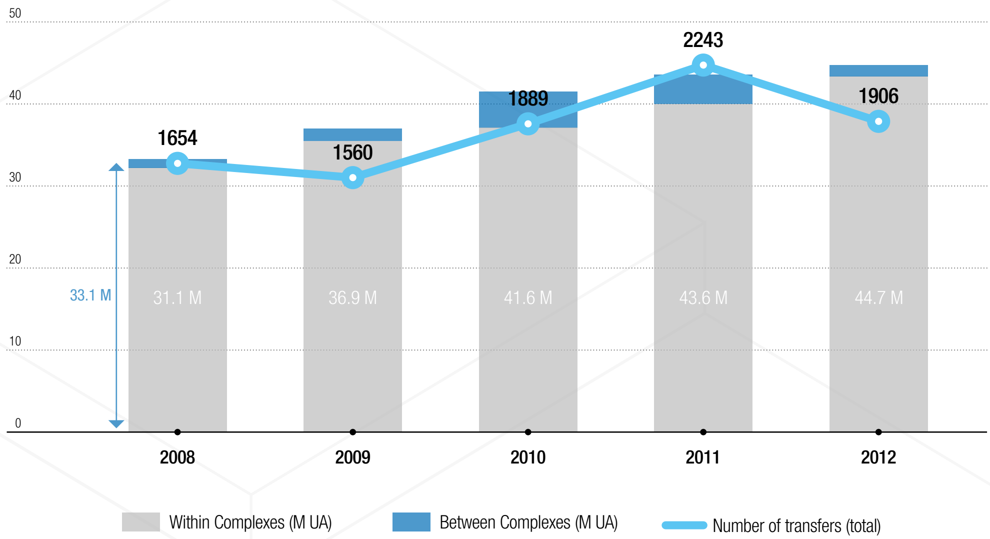
Since 2008, the Bank has put in place a robust infrastructure for measuring development results vis-à-vis corporate priorities. However, the extent to which results monitoring is contributing to the planning process is unclear. The SDNs, budget guidelines, CFPs and PBDs make little or no mention of results measurement and even less so for motivating re-allocative decisions. For instance, the PBD has included a section on the RMF, but there are no clear linkages between the findings of this section and the implications for resource allocation. Likewise, the Bank's Annual Development Effectiveness Review (ADER), while providing an overview of the Bank's performance vis-à-vis the RMF provides little in the way of operationalising the RMF results to provide relevant results parameters for resource allocation.

Does the budget framework ensure optimal flexibility?

The 2007 budget reform had sought to 'maintain sufficient institutional flexibility' as one of its principal objectives. Budget management flexibility is assessed in a twofold manner by looking into: i) the extent to which managers are using the flexibility offered; and ii) the extent to which it enables them to respond more efficiently and effectively to changing conditions.

The Bank has succeeded in introducing greater flexibility into day-to-day budget management. The budget reform has succeeded in devolving budget management authority and removing the stringent controls that limited flexibility. The number and volume of budget transfers both within and between Complexes have steadily grown since the amendments to the Bank's financial regulations in 2007 opened the door for more flexible budget management (see Figure 21).

Figure 21: Budget transfers by number and volume (UA million)



Source: SAP extractions

Managers are taking advantage of the new-found flexibility. Increased flexibility can be considered as one of the major achievements of the reform. Stakeholders have appreciated the ability to quickly and easily transfer budget resources to respond to evolving needs. The gross annual budget transfer flows and the number of budget transfers have increased significantly during the period 2010-2014. Indeed, the gross annual budget transfer flows have increased from UA 33.1 million in 2010 to over UA 44.7 million in 2014 (1 January to 15 December). The number of transfers has meanwhile increased from 1,654 in 2010 to 1,906 in 2014, peaking at 2,243 in 2013. The most active budget lines for transfers are all directly managed.

Budget flexibility remains limited in some key areas. These include: a) staff management devolution; and b) the authority exercised by the Field Offices.

a. *Issues with staff management ultimately constrained the extent of flexibility.* Flexibility of the directly managed budget is limited to a great extent by the problems having resulted from staff management devolution and the Bank's move to re-introduce the de facto headcount control by freezing new positions. The portion of the directly managed budget that managers ultimately have full control over is only a little over 30%.

b. *FOs operate with higher levels of controls due to capacity concerns.* Bank staff have revealed during interviews that the budget management capacity at the FO level is low and hence many decisions are to be taken at the headquarters level. The lack of training on key guidelines such as the Delegation of Authority Matrix (DAM) may also explain the reluctance of field-based staff to use the budget authority that has been delegated to them. It has also been noted that support staff in particular, who deal with day-to-day budget management issues, lack opportunities for training. However, it should be noted here that training sessions are invariably organised before the start of the budget exercise, and all FOs are invited to participate. Records show that in 2013, for example, budget staff visited all Field Offices, except South Sudan, to organise training sessions on budget policies, principles and cost accounting. The training sessions covered between 50% and 90% of staff in each FO. The key question relevant in this context is the effectiveness of the training imparted. The e-survey clearly indicates that the training sessions conducted (outputs) are not necessarily equipping the staff to apply that knowledge to perform administrative budget management responsibilities (outcome).

Is the utilisation of resources monitored for accountability purposes?

Accountability framework remains underdeveloped despite a number of measures implemented. As part of the 2007 budget reform, management set in motion a number of measures aimed at the establishment of an accountability and performance framework. Measures put in place are threefold i) the formulation of KPIs to assess progress in work programme execution, the efficiency of resource use or the achievement of institutional priorities; ii) the establishment of an effective system of reporting to provide reliable information to the management and the Boards; and iii) putting in place of Performance Contracts for management. The effectiveness of these measures is examined below.

The Work Programme Agreements appear to do little to contribute to accountability. The WPAs were intended to support the practical implementation of the matrix management structure of the Bank where the operational complexes are separated as Regional and Sector Vice-Presidencies. They are intended to ensure that individual work programmes are consistent with the Country Strategy Papers (CSPs) and Regional Integration Strategy Papers (RISPs) and respect the Bank lending ceilings and sustainable lending targets, as well as coordinate the work of the sector and regional teams and serve as the key accountability tool for managing the country work programmes. The WPAs cover all planned deliverables for the Bank's lending and non-lending services. They are negotiated through close cooperation between the Regional and Sector teams with the collaboration of relevant FOs. The process has been automated using the SRAS, which can generate an overview of the Bank's work in each country and region for validation. The staff survey for this evaluation as well as the 2012 review reveal that the WPAs have not succeeded in creating a strong link of accountability between Regional and Sector Departments. It is likely that this can be achieved when the Bank moves to a fully-fledged system of Country Budget Management by further empowering Regional Departments with enhanced management responsibilities over the budget resources associated with the Country and Regional WPAs.

CFPs are a key link between resource allocation and results; but they insufficiently address performance and do not appear to serve as the basis for strategic discussion. CFP prepared by each Complex presents their strategic direction and orientation for the period, objectives, activities to be delivered, brief policy statement with sector policies and expected outcomes together with staffing and resource requirements. The CFP also provides details of estimated efficiency gains and cost saving efforts for the period; and highlights the KPIs and targets to monitor implementation progress and performance. The documents then form the basis for the preparation of the three-year rolling PBD. In a first step, CFPs are consolidated to develop the Bank's WP and Budget Framework Paper which is discussed at the SMCC before it is presented to the Board for discussions at an informal meeting. Document review shows that the quality of the CFP has varied widely in the past. Staff interviews have revealed that in some Complexes it is ultimately the Budget Coordinator who is tasked with compiling and preparing the CFP, with little strategic input from the Complex management. Furthermore, it does not appear that discussions at the level of senior management sufficiently challenge the contents of the CFPs, which proceed without any serious debate.

While the CFPs provide a detailed overview of the Complex's work with the TYS and a breakdown of the contribution of the IOP for the coming planning period by thematic priority areas, with full accounting of the projects that would contribute to each priority area. However these are presented in a less analytical manner with inadequate data and historical trends. The CFPs rarely discussed the causes of poor performance or proposals for remedial action. Furthermore, less than 10% of the documents justified the need for resource requirements for the coming planning period.

Performance Contracts are a positive step, but they are not fully implemented. The Performance Contracts were only introduced in 2014 with the objective of holding 3Vice Presidents accountable for effective and efficient delivery of the Bank's work programme. These are based on the expected deliverables and Complexes' KPIs as outlined in the CFPs. It is expected that more clearly defining performance on the basis of a combination of KPIs and deliverables would facilitate the monitoring of work programme delivery and form the basis on which the overall performance of VPUs will be managed and evaluated. In practice, each Vice President signs a Performance Contract with the President on an annual basis. It is also expected that Directors will, in turn, sign contracts with their respective Vice Presidents, and the Managers with the Directors, thereby cascading the contracts down to the Division level. The evaluation has not generated evidence to assess the effectiveness of the performance contracts as it is too early to do so. Furthermore, while the contents are in theory based on the CFPs, the exact contents are not disclosed.

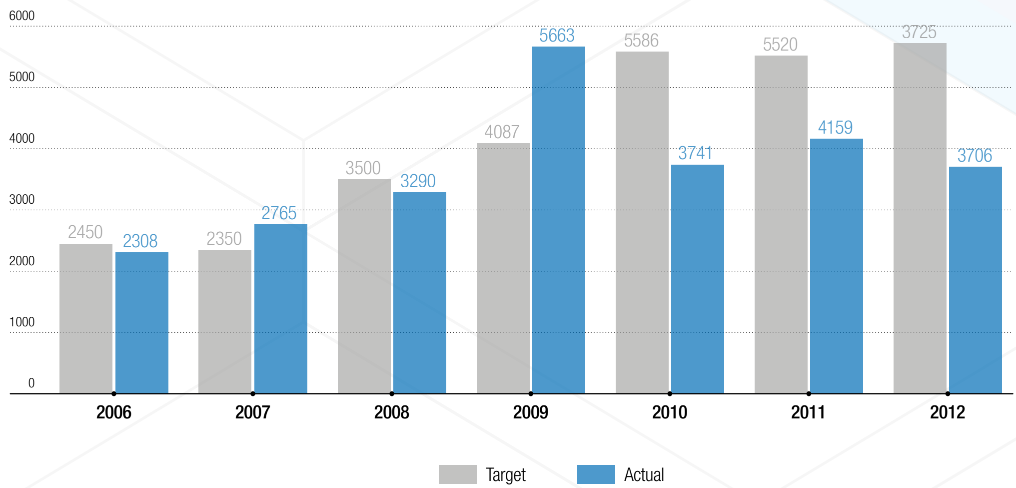
Objective performance measurement is difficult in the context of a challenging operational environment. As seen in other MDBs, there prevails a cautious attitude within the Bank with regard to directly tying individual managerial performance to operational performance in terms of work programme execution and efficiency. The link between individual performance and work programme execution is not seen as always being sufficiently robust to judge, independent of other factors, the performance of individual managers. Work programme execution is subject to a number of exogenous factors, such as the capacity of Regional Member Countries (RMCs) to take on new loans and the impact of the wider economic and political environment, which is beyond management's span of control. This also could indicate inadequate realism in the targets set. This is illustrated in Figure 22.

Since 2010, the Bank has been facing a turbulent economic and political climate on the continent, especially in some of its historical areas of portfolio concentration (i.e. North Africa). The aftermath of the financial crisis continued to have an effect on the capacity of RMCs to absorb planned operations and many operations have been put on hold due to lack of visibility on the fiscal and political context in certain countries.

The use of KPIs has increased but their use could be further developed. COPB is responsible for monitoring, assessing and reporting on institutional performance through KPIs[17] and advising on actions required to sustain or improve performance, through dialogue with management. The Budget Execution Coordination Division (COPB.2) works closely with the Management, Quality Assurance and Results Department (ORQR), COSP and VPUs to develop and enhance KPIs to facilitate adequate monitoring of the performance of the Bank's operations, in harmony with the RMF of the Bank.

While clear progress has been made in institutionalising the use of KPIs as part of the budget management cycle, avenues for further progress include:

Figure 22: Targeted vs. actual group lending (2006-2012)



a. *The number and type of KPIs have been sporadic* in some Complexes, while chronically underdeveloped in others (see Figure 23). In addition, the number and type of KPIs can change dramatically from one year to another. This limits the legibility of performance reporting and makes it difficult to track performance over time. Less than 20% of KPIs can be compared over 5 years or more. It should be noted that the type of activities undertaken by some Complexes does not easily lend itself to formulating KPIs, while it is easier for others.

b. *KPIs at the Bank are currently used only at the institutional and VPU level.* Cascading their use down to the Department and Division levels in order to provide a more granular view of performance, and reinforce the accountability framework by drawing a more explicit link between the outputs of individual organisational units and the performance of the Bank, is yet to be done.

c. *No KPIs appear to be available for most institutional bodies or the Board.* Only Units Reporting to the President (UPRST) appear to formulate KPIs on an annual basis as part of its CFP.[18]

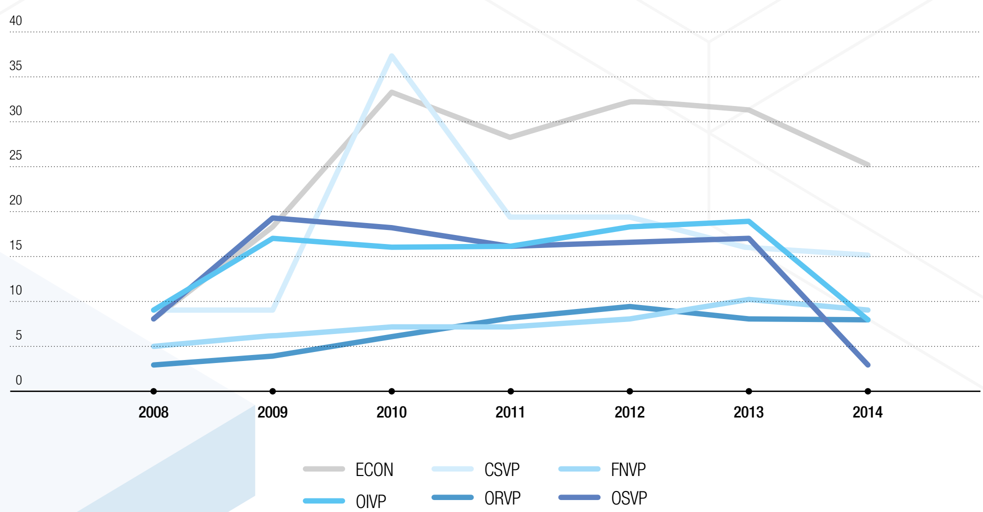
Increased use of KPIs has not yet resulted in a transition to a performance-driven management culture. In order to ultimately be effective, KPIs must not just adequately capture how efficiently and effectively the Bank is meeting its business objectives, but also be actively used by managers during the course of everyday decision-making. Documentary review and staff feedback suggest that KPIs are increasingly accessible to managers and their use 'built in' at different stages of the budget management cycle. However, the culture of proactively using KPIs to inform decision-making is still not well-developed. For example, the CFP prepared by each Vice-Presidency include a discussion of the previous year's performance. These documents are intended to serve as the basis for discussion during Senior Management meetings. However, as revealed during staff interviews, the discussions in the SMCC do not sufficiently revolve around performance. Regularly updated KPI dashboards are available to managers through the Intranet, but they are not regularly accessed.

Bridging the gap between KPI availability and its meaningful use in decision-making requires deeper cultural and behavioural change that must be nurtured over time. COPB has been making efforts to evolve the management culture in this direction by regularly organising meetings with management to discuss performance, during which KPIs are discussed. On the Complex and Departmental levels, regular operational meetings are also held during which KPIs and other performance data are discussed. COPB continues the work to transition itself to take on a more corporate analytical role, providing analytical data in view of improving performance and efficiency. The newly created Delivery and Performance Management Office (COPM) and its monthly Executive Dashboard have become a staple for conversation at SMCC and PEX Meetings. The results of the e-survey demonstrate that simple, engaging and analytical monitoring and reporting documents such as the Executive Dashboard are found highly useful by users.

The incomplete implementation of new reporting tools is limiting accountability. A fully implemented CAS will enable better monitoring of expenditure against the work programme to provide clear accountability and efficiency. A fully functional CAS can avoid the spending race at the end of the year and ensure that managers are committing funds for expenses that are contributing to the work programme.

The role of COPB has begun to shift in line with the spirit of the reform, but incomplete implementation has obliged the department to continue to exercise a direct budget management role. The 2012 review found a strong perception among managers and staff that COPB had not fully transitioned from line-item expenditure control to its envisaged corporate analytical role of overseeing and assessing the efficiency and effectiveness of work-programme execution. This change is essential for effectively decentralising budget management responsibility to the Complexes. Ongoing efforts include providing monthly, quarterly, mid-year and end-of-year budget and performance reporting, fostering

Figure 23: Number of KPIs formulated per complex (2008 – 2013)



Source: Annual Retrospective Reviews of the Administrative Budget greater engagement with senior management through meetings with Complex management teams to review work programme and budget performance and budget roundtables. One of the major developments since the last review was the restructuring of the department in 2013. The new role stipulates that the COPB take on the budget planning, advisory, analytical and performance management roles.

The e-survey results show that, while this transition has progressed, the perception of the role of COPB has still not yet fully evolved in line with the envisaged role. The greatest number of respondents described COPB's role as coordinating the preparation of the budget and programme planning documents, supporting and developing budget capacity and tools and delivering statutory reporting documents. However, just less than half of respondents saw COPB's role as collaboratively developing KPIs. Likewise, less than 60% viewed the department as having a role in guaranteeing strategic alignment and providing analytical support to decision-making. The results of the e-survey largely reflected the information gathered through in-depth interviews with the staff, management and the Board.

These results may in reality point to a slower evolution of the perception of Bank staff rather than a failure to transition to the new corporate analytical role. However, two exogenous factors can also explain these perceptions to some extent. First, the slower than expected implementation of the CAS has in effect limited the extent to which COPB can fully assume its analytical role. Secondly, the difficulties experienced with the implementation of some reform measures have obliged COPB to continue to some extent to exercise a direct budget management role.

The Bank has made some progress in certain areas of effectiveness, viz. strategic alignment of budget resources, according greater flexibility to managers for day-to-day budget management, and measures to ensure accountability, particularly the Performance Contracts and use of KPIs. While these are early achievements mostly at the levels of outputs and immediate outcomes, full implementation of the reform and their uptake by the Bank staff and management would enable the Bank to achieve substantial results from budget management. The discussion above has pointed at the critical areas of improvement including proper alignment of the planning process with strategic priorities, more meaningful flexibility, staff management and capacity for the Field Office staff in budget management, and various instruments of accountability (WPA, CFP, results-oriented KPIs, and incomplete implementation of CAS). Effectiveness of administrative budget management is rated as moderately unsatisfactory (see Table 7). ■

Table 7: Assessment of the Effectiveness of Administrative Budget Management

Evaluation criterion and evaluation questions	Rating	
Effectiveness		
To what extent does the budget system support a greater alignment with the TYS?	Moderately Satisfactory	●
To what extent does the budget system support an output-based resource allocation?	Moderately Unsatisfactory	●
Does the budget framework ensure optimal flexibility?	Moderately Satisfactory	●
Is the utilisation of resources monitored for accountability purposes?	Unsatisfactory	●
Overall rating	**Moderately Unsatisfactory**	●

Conclusions, Lessons and Recommendations

Conclusions

The evaluation of the Bank's administrative budget management, about six years after the initiation of a major budget reform programme, and two years after the Management's review of the reforms, brings to fore an important message: the Bank is on the right track in terms of the reform path but it must complete implementation of the key reform measures quickly. Full implementation of the reform measures are essential for efficient and effective budget management, which in turn will contribute to institutional efficiency and development effectiveness of the Bank. While the Bank has achieved some early results of improved flexibility in budget management and enhanced alignment of budget with institutional priorities, the reform is largely a work in progress, and there are several challenges.

The Bank had set off with ambitious reform measures but with inadequate planning and preparedness. Rich dividends would have been realised had the Bank learned lessons from the experience of other institutions that had advanced well in terms of the budget reform path. In particular, there are lessons to be learnt with respect to anticipating the potential hurdles and devising strategies to overcome them. This would have enabled the Bank to sequence the implementation of the reform measures, ensuring coherence with the larger institutional reforms going on in parallel, and complete the reform efforts in a timely manner. While the flexibility in reform implementation has its merits, it also runs the risk of prolonging the implementation, leading to an undesirable perception of 'reform fatigue,' which was expressed by several Bank staff. The budget reform is critical for the success of other institutional reforms in the Bank, and it also works reciprocally.

It would be unrealistic to expect quick returns from a complex reform programme like budget reform because it requires behavioural and cultural change on the part of the Bank's management and staff: this is essential for the modern budget management systems and practices to take effect and produce results. This factor has been the most formidable challenge and one which can potentially scupper the entire reform programme. Some of the key reform measures implemented are not yielding the desired results primarily because they were not accompanied by a rigorous change management strategy aiming at bringing about the required behavioural and cultural change. This is time consuming and effort intensive, but critical for sustainable results.

This evaluation has rated the Bank's administrative budget management with respect to key evaluation criteria. Relevance and coherence of administrative budget management reform are rated as satisfactory, while implementation, efficiency and effectiveness as moderately unsatisfactory. Overall, the Bank's administrative budget management is rated as moderately unsatisfactory.

Lessons

The following are the key lessons emerging from the implementation of administrative budget management reform in the Bank. In general, these lessons are equally relevant for all the other institutional reforms.

a. *External coherence.* Systematic analysis of external coherence of the specific institutional reform with other reforms (planned or ongoing) and institutional priorities should be carried out during the reform design/inception stage itself and taken into account during implementation. Institutional reforms can all be seen as forming part of the broader transformation of the Bank into a performance-driven and learning institution while specific attention needs to be given to monitoring and evaluation.

b. *Sequencing.* Agendas in a given reform package should be properly sequenced at the design stage, and implementation should have a clear strategy with consistent objectives, an overarching vision, and a timeline with milestones and key steps. Untested interventions can be put to pilot testing before wider implementation.

c. *Cultural and behavioural change.* Effective implementation of institutional reform requires cultural and behavioural change, which should be accorded adequate emphasis as given to the technical implementation of the reform agenda. Enhanced processes, frameworks and tools will ultimately have little impact if they are not supported by suitable changes in the way the staff think and act. This necessitates a clear communication and change management strategy.

d. *Senior management sponsorship and reform management structure.* Cross-institutional coordination and coherence with other reforms, facilitation of clear communication and coherent narratives, and greater accountability for results require senior management buy-in, action and sponsorship. A formal coordinating body can be as essential for effective reform implementation as is the active involvement of all relevant actors.

Recommendations

Based on the analytical findings presented above, the evaluation draws the following recommendations, which are grouped into four broad categories.

i. Expedite full implementation of budget reform.

a. Review the priorities and sequencing in coherence with other institutional reforms and fix a clear deadline for full implementation of reform measures. Staff management devolution and the accountability framework should be implemented on priority.

b. Define a clear change management strategy, combining targeted capacity development based on the specific needs of stakeholders, clearer communication on the reform vision, objectives and progress in addition to communication on specific tools and processes, and incentives to adapt to new ways of planning and budgeting.

c. Strengthen the reform management structure by assigning an interdepartmental and cross-complex core team under the direction of the First Vice President / Chief Operating Officer (FVP/COO) to coordinate reform implementation—that is, budget as well as all other institutional reforms.

ii. Strengthen the monitoring and accountability framework.

a. Strengthen the monitoring and accountability framework, with measurable result-oriented KPIs for each cost centre and performance conversations based on regular performance assessments.

b. Revise the existing KPIs and performance feedback process to ensure that results monitoring data are sufficiently taken into account during the planning and budgeting process.

c. Complete the transition towards Country Budgeting guided by the CSP, in order to realise the full potential of Work Programme Agreements in reinforcing accountability.

d. Strengthen transparency around planning and budgeting through open access to budget and performance data, for Complexes and Units, and more impactful data visualisation.

iii. ***Simplify the planning and budgeting process and better articulate it with the Bank's strategic priorities.***

a. Improve the balance between bottom-up and top-down aspects of the planning process by strengthening top down directions by Senior Management at the outset for greater strategic alignment.

b. Reduce the information burden of the planning process, notably by budgeting in detail only for the 1st year of the three-year planning framework and indicating overall resources likely to be available for the 2nd and 3rd years. Complete implementation of CAS and WPA, and use CAS data to generate cost coefficients to reduce the information burden on managers.

c. Integrate management of external resources, like the Trust Funds, into the planning process to provide Senior Management with a comprehensive picture of the available resources and to ensure that the use of those resources is fully aligned with institutional priorities.

iv. ***Streamline and strengthen relations with the Board.***

a. Establish a forum to strengthen the interaction between the Board and the management with clearly defined terms of reference that enable the Board to provide strategic guidance for the budget review, approval and oversight processes. In this context, rather than creating a new forum, it is recommended that an existing committee—such as the audit and finance committee—be strengthened and given the additional responsibility. ■

Annexes

Annex 1 — Methodological Details

The evaluation was theory-based and drew on a broad range of data collection methods and tools. The methodological approach followed the development of an evaluation framework in line with the OECD-DAC criteria. The framework comprised: i) a graphic representation of the reform objectives (objectives tree) that reconstructed a coherent logic of the causal links between the outputs and outcomes of the reform and served as the theory of change for the reform programme (see Figure 1); ii) definition of evaluation questions and analytical approach in answering them; and iii) development of an evaluation grid to guide the study.

These key actions collectively formed a framework for collecting information by using appropriate qualitative and quantitative data collection methods, and analysing performance. The evaluation grid makes sure that the evaluation is guided by a coherent logical framework which covers all relevant elements of the programme and ensures that the correct judgement criteria and data sources are used in accordance with standard practices in evaluation.

Evaluation Process

The evaluation process was completed in three phases, viz. inception, data gathering and analysis, and report preparation. The inception phase involved discussions on the overall scope, approach, and methodology as well as key areas for further investigation during the first round of consultations at headquarters, with Board members, Directors, Vice Presidents and key staff (see details in Table A1.1). The data gathering and analysis phase included a two-week visit to Bank headquarters in Abidjan and consultations with Field Office staff through telephone. The team visited three comparator organisations (World Bank, Inter-American Development Bank and Asian Development Bank) and had video meetings with one (Agence Française de Développement). The team carried out extensive document and literature reviews of the four organisations. The reporting and revision phase included presentation of emerging findings with Budget department and reference group. Two independent experts reviewed and provided guidance in formulating evaluation findings and reports.

Evaluation Rating Criteria

The evidences collected were triangulated and used to inform the overall assessment as per the main evaluation questions, which were aligned with the OECD-DAC evaluation criteria (relevance, efficiency and effectiveness). The evaluation used a four point scale to rate the performance with respect to the three criteria and the contributory sub-criteria. The rating scale is summarised in Table A1.1:

Table A1.1: Summary of Rating Scale

Rating	Guidance
Satisfactory	Good performance against all or nearly all aspects reviewed.
Moderately Satisfactory	Good performance against the majority but not all aspects.
Moderately Unsatisfactory	Good performance against only some aspects.
Unsatisfactory	Good performance against few or no aspects.

Data Collection Methods

The information gathering methods used for the evaluation included the following:

- Desk reviews of policy and strategy documents from the Bank and comparator evaluations, review of similar evaluations, and most importantly a stock taking of recommendations and actions undertaken by the Bank from a previous review of the administrative budget reform, carried out by the management;
- An online survey of key Bank staff and Board members and Advisors, with reference to previous survey data on budget reform;
- Key informant interviews at the Bank headquarters in Abidjan, Field Offices, including the TRA (see Table A1.3) and comparator institutions;
- A Benchmarking study of selected comparators including the Asian Development Bank, the Inter-American Development Bank, the World Bank and the Agence Française de Développement based on desk reviews and team visits to their Headquarters;
- Instituting a Reference Group with representatives from COPB, COSP, ORQR, FNVP, OSVP, OIVP, ORVP and PECOD, to provide guidance and support by relaying relevant information and validation of factual content of the evaluation reports.

Electronic Survey

An online survey was used to gather insights from Board members and Advisors, Management and relevant key staff from different Complexes on results achieved, key issues and challenges as well as suggestions for enhancing efficiency and effectiveness of the Bank's administrative budget management (Table A1.2). The respondents were targeted and selected based on their knowledge and involvement in various aspects of the budget process and ensuring a good representation of the organisational units involved. The questions were formulated around key areas identified as a result of inception consultations at the Bank's HQ which targeted and addressed areas that are specific to each group. The survey received 18.3% response rate, which was not adequate for tests of statistical significance, but were used with discretion to supplement other sources of data including the 2012 survey, interviews and extensive document review.

Table A1.2: Online Survey Responses

Stakeholders	Questionnaire sent to (no.)	Response received	Response rate (%)
Board Members	54	10	18.0
Vice Presidents	6	2	33.0
Directors	45	12	26.7
Managers and Resident Representatives	119	12	10.1
Budget Coordinators, Budget Focal Points	103	13	12.6
Budget Staff (current & past)	20	9	45.0
Lead Officers	28	5	17.9
Task Managers of all Operations Complexes and Strategy Department	170	37	21.8
Total	**545**	**100**	**18.3**

Key Informant Interviews

Semi-structured interviews were conducted with selected Board members and Advisors, staff in Field Offices, HQ in Abidjan and TRA in Tunis. Interview guides were used to obtain qualitative insights as well as structured responses to selected questions adopting a rating criteria that could be aggregated across interviews. Interviewees were selected to ensure adequate coverage of people involved in different stages of the Budget process (planning, preparation, execution, monitoring and accountability). The interviewees were identified based on their knowledge of the processes or involvement in specific areas. The number of interviews conducted is shown in Table A1.3. Most of these interviews used a standardised interview template.

Table A1.3: Grouping of Key Informants

Key Informant Group	Number
Board Members and Advisors	6
Vice Presidents (OSVP, CSVP, OIVP and GCRO)	4
Directors and Managers	18
Resident Representatives (NGFO, SARC, ZMFO and SNFO)	4
Professional staff (Finance staff, Travel & Administration, Budget Coordinators / Focal Operations Staff and Field Office staff	32
Total	**62**

Benchmarking

A benchmarking study was carried out on four comparator organisations which were selected by a set of criteria established by the evaluation team on the basis of the following considerations: a) comparability – the extent to which the Bank could be compared with the organisation on the basis of objective characteristics; b) relevance – the extent to which the comparator organisation provides useful insights for the AfDB in the area of administrative budget management; and c) feasibility – the extent to which the organisation publicly discloses relevant documents, whether the organisation has a culture of transparency and whether they would be receptive to the data demands of the evaluation team. The criteria also included the possibility of learning from an organisation outside the peer group institutions. A bilateral organisation was selected as per this consideration.

An in-depth review of documents led to the choice of the four comparators, viz. the World Bank, the Inter-American Development Bank, the Asian Development Bank and the Agence Française de Développement. The Benchmarking exercise included document review, visit to three multilateral development banks, desk review of the AFD with the aim of comparing and contrasting the Bank's administrative budget management systems and practices with the practices implemented in comparator institutions; identifying good practices and/or new tools or systems that may reinforce the Bank's administrative budget processes; and gather first-hand accounts through interviews with key staff of the institutions on the implementation of their reforms. The outcome of the exercise provided additional material to the overall evaluative questions on Bank's reforms, budget efficiency and effectiveness, through relevant experiences and lessons learnt; and also enabled a comparative analysis of AfDB's indicators with that of the comparators. A full report of the benchmarking study is one of the background reports and available for reference.

Annex 2 — Evaluation Matrix

Sub-questions	Judgment criteria	Indicators/Descriptors	Information sources
EQ1 Has the Bank been able to ensure that the tools, rules and procedures for maintaining its administrative budget are appropriate?			

Q1a. Have the budget reforms been implemented in practice and proved to be effective?	What is the status of the implementation of budget reforms?	▌ Implementation progress of the Administrative Budget Reform since 2008
		▌ Proportion of planned tools and systems implemented and operational
		▌ Effectiveness of the new tools, procedures and practices and their immediate outputs
		▌ Analysis of the quality of the implementation and satisfaction of the different staffs
			▌ Strategic and field interviews
			▌ Online survey
			▌ Document review:
			  ▌ 2012 external review report
			  ▌ COPB reports on progress in implementation

	What are the major bottlenecks for budget reform implementation?	▌ Evidence that important deliverables did not fail or failed to be implemented due to lack of resources
		▌ The extent to which recommendations of 2012 budget reform review has been implemented
			▌ Strategic and field interviews
			▌ Online survey
			▌ Workshop discussions
			▌ Documentation review:
			  ▌ 2012 external review report
			  ▌ COPB reports on progress in implementation

EQ1b. How does the Bank's budget management framework and approach perform compared with other IFIs and follow good practice standards?	Are the Bank's budget management framework, processes and practices in line with successful practices within comparator IFIs?	▌ Level of alignment of the Bank's budget management framework to good practice standards, based on best practices that could be identified:
		  ▌ Comparison of the budget elaboration processes, their relevance and efficiency (Time elapse for producing budget, calendar, level of stakeholders' commitment)
		  ▌ Comparison of the budget execution processes, the accounting system and tools used and managers' commitment in decisions relating to administrative budget
		  ▌ Comparison of the Budget reforms implemented in the organisations, their objectives, approach, bottlenecks and first results if available (on cost savings, economies of scale, earnings)
			▌ Interviews with Bank's high-level officials
			▌ Benchmarking with 4 comparator organisations
			▌ Bank and IFIs documentation review:
			  ▌ Policy documents
			  ▌ Mid-term review report
			  ▌ Progress reports
			  ▌ Financial data

	How does the Bank's approach perform compared with comparator IFIs?	▌ Performance of Bank's budget management approach compared with comparator institutions:
		  ▌ Comparison of the evolution and allocation of the administrative budget: internal administrative expenses (IAE) per activities per Complexes; Administrative cost per UA 1 million disbursed
		  ▌ Comparison of the efficiency of administrative budget: Budget execution rate, IAE on lending volume ratio, Cost Income ratio, Staff average costs and payroll
		  ▌ Comparison of the level of organisational performance, budget alignment on LTS, output-based decisions and level of flexibility for managers (analysis of the MOPAN KPIs and good practices	

Sub-questions	Judgment criteria	Indicators/Descriptors	Information sources
EQ1c. What are the major systems issues in the Bank's Budget administration (SAP, ATRS, CAS, SRAS)?	To what extent do data collection systems provide adequate information to support budget management?	▌ Analysis of the adequacy of KPIs, budget information and tools as regards the needs from the different stakeholders: ▌ Board and high-level management ▌ The Auditor General ▌ The Director of Budget ▌ The Head of Delivery and Performance Management Office ▌ VPUs management ▌ Country management	▌ Strategic and field interviews ▌ Desk review: ▌ Progress reports on processes and reform actions
	To what extent are tools in place appropriate for budget cycle management?		
EQ1d. To what extent have the human aspects of the Budget reforms been taken in to account in an appropriate manner?	To what extent is the budget framework understood and accepted in the Bank?	▌ Proportion of staff trained in modern budget practices and applying them effectively ▌ Number of workshops and training session organised for bank staff and senior management, and satisfaction ▌ Frequency of reported problems and level of resistance in application of framework	▌ Strategic and field interviews ▌ Online survey ▌ Desk review: ▌ Progress reports on budget implementation
	Has the Bank been able to put in place appropriate skills to enable effective budget management?	▌ Proportion of budget-related staff having successfully completed training in budget management ▌ Availability and functionality of budget management helpdesk ▌ Availability and functionality of Budget Management Coordinators for each Complex	
EQ2. Are the Bank's processes and procedures for formulating, allocating and using its administrative budget time and resource efficient?			
EQ2a. Are budget planning and execution activities efficient?	Are preparation, discussion and approval processes considered as efficient given the needs and the constraints of the bank's budget function?	▌ Mapping of budget processes and lead time estimation based on statistical data and field visits ▌ Comparison with good practices from other IFIs ▌ Perception of the Bank's high-level officials and staffs involved in budget preparation ▌ Statistical data on: ▌ Time elapsed in producing budgets ▌ Administrative Costs of preparing budget	▌ Strategic and field interviews ▌ Online survey ▌ Desk review: ▌ Bank guidelines and presidential directives ▌ Budget framework documents ▌ Progress reports ▌ SRAS data reporting ▌ Benchmarking
	To which extent is the organisation of the Budget Management function considered as efficient?	▌ For each step of the budget management processes, analysis of the human resources needed ▌ Perception of the Bank's high-level officials and staffs on the role of the Direction of Budget and Budget coordinators/focal points	▌ Strategic and field interviews ▌ Online survey
EQ2b. Are the resources allocated efficiently (with respect to processes and timeliness)?	To what extent do budget discussions and approval processes yield cost effective results?	▌ Analysis of Board and SMCC memos and their effective implementation ▌ Perception of the Bank's high-level officials and staffs involved in budget preparation ▌ Statistical data on: ▌ Cost saved through budget discussions	▌ Strategic and field interviews ▌ Online survey ▌ SRAS data reporting ▌ Desk review: ▌ Bank guidelines and presidential directives ▌ Budget framework documents

Sub-questions	Judgment criteria	Indicators/Descriptors	Information sources
EQ2c. Are resources used efficiently?	What is the level of budget performance?	▌ Review and improvement in performance indicators compared with earlier replenishments: ▌ Vacancy rate targets achieved ▌ Budget execution rate ▌ Approved work programme vs achieved/ executed work programme ▌ Cost-Income ratios	▌ Strategic and field interviews ▌ Desk review: ▌ Progress reports on work programme and budget administration/execution ▌ Execution of the 3 year rolling PBD ▌ Data from CAS and SAP
	Are the administrative costs in line with the Bank's objectives? Do the identified trends rely on the 2008 budget reform?	▌ Administrative costs per UA 1 million disbursed / per UA 1 million of balance sheet asset (loan balance)	
	To what extent does budget management yield cost savings?	▌ Levels of cost savings in work programme implementation ▌ Impact of the return to HQ on the overall administrative budget management	
EQ3. To What extent does the Bank's new administrative budget support results (outcome and immediate impacts)?			
EQ3a. To what extent does the new budget system support an output-based allocation of resources, aligned with the long-term strategy?	To what extent do the budget planning processes provide a coherent, prioritised and realistic portfolio of actions?	▌ Analysis of coherence of resources allocation with institutional priority areas (percentage share) ▌ Analysis of the quality of the linkage of work plan with the long-term objectives of the Bank ▌ Analysis of the main drivers of the allocation of resources	▌ Board, VPUs and directors interviews ▌ Online survey ▌ Desk review: ▌ Bank documentation and other evaluation reports ▌ Execution of the 3-year rolling PBD ▌ SRAS data reporting
EQ3b. Does the budget framework ensure optimal flexibility?	Are VPUs and cost centre managers able to exercise flexibility in resource reallocation for justifiable purposes?	▌ Perception of the Bank's VPUs and field offices management / budget coordinators ▌ Level of fungibility in resource use ▌ Level of flexibility in reallocating resources from underperforming to performing cost centres	▌ VPU, directors and field office manager interviews ▌ Online survey ▌ Desk review: ▌ Evaluation reports ▌ Execution of the 3-year rolling PBD ▌ SAP data reporting
EQ3c. Is the utilisation of resources monitored and reported for accountability purpose?	To what extent is resource utilisation reported and in coherence with budget and performance frameworks?	▌ Effectiveness of the performance contracts for resource utilisation and work programme implementation ▌ Regularity in and adequacy of reporting on budget utilisation performance ▌ Effectiveness and adequacy of timely actions taken on areas of concern	▌ Online survey ▌ Desk review: ▌ Quarterly and mid-year progress reporting ▌ Retrospective reviews of budget utilisation and performance

Sub-questions	Judgment criteria	Indicators/Descriptors	Information sources
EQ3d. Is the administrative budget framework performance-driven?	To what extent does the Bank have an effective result-oriented approach to negotiating and agreeing on the budget proposals?	▌Perception of the high-level officials, VPUs and field offices management ▌Analysis of data and preparatory documents used in budget negotiations	▌Strategic and field interviews ▌Online survey ▌Mapping Bank processes ▌Desk review: ▌Preparatory documents used in budget negotiations ▌SRAS data reporting
	To what extent has the Bank's administrative budget framework moved from activity-based to output-based?	▌Analysis of the effectiveness of the data collection tools and systems, including level of staff appropriation and satisfaction ▌Analysis of the relevance and adequacy of the indicators being tracked ▌Analysis of the relevance and realism of the target	▌Strategic and field interviews ▌Online survey ▌Mapping Bank processes ▌SAP and CAS data reporting
EQ4. What lessons can be drawn from the recent budget reforms?			
EQ4. What lessons can be learned from the initiatives to improve relevance, efficiency and effectiveness of processes and practices of the Administrative Budget Management in the Bank?	What enabling and constraining factors affected the budget reforms?	▌Factors determining the relevance, efficiency and effectiveness of budget reforms measures ▌Risks and verified / non verified initial assumptions influencing the effects of the Budget reforms	▌Strategic and field interviews ▌Online survey ▌Revised Result Chain ▌Workshop discussions
	Were the administrative budget reforms coherent and complementary with other Bank-wide reform efforts?	▌Coherence with other reforms (HR policies, Business affairs, IT systems, LTS) ▌Instances of the effects of other reform areas having a negative impact on budget reforms or limiting their efficiency/effectiveness	▌Strategic and field interviews ▌Online survey ▌Workshop discussions
	What could have been done differently? Which success factors / risks have to be taken into account for further internal Bank reforms?	▌Success/enabling factors that can be promoted to achieve budget reform objectives ▌Constraining elements/procedural bottlenecks that need to be removed ▌Processes and procedures that worked well and can be retained/promoted ▌Processes and procedures that did not work well and should be removed/improved ▌How has comparable institutions performed in specific areas	▌Strategic and field interviews ▌Online survey ▌Recommendations ▌Workshop discussion

Annex 3 — Stocktaking of Budget Reform Implementation

Measures envisaged	Status	Steps taken and objectives	Timeline
Budget Management Devolution			
Devolving of budget management to Complexes	Satisfactory	With changes to the Bank's Financial Regulations in 2007, following the adoption by the Board of Management's budget reform proposal, budget management for salaries, travel, consultants and other direct expenses have been devolved to Complexes and other units. The directly managed budget now represents a major part of the administrative budget (over 54% in 2013).[11 12]	Completed in 2007
Full fungibility for directly managed budgets	Moderately satisfactory	2007 amendments to the Financial Regulations also introduced a great deal of fungibility within the directly managed budget. The Complex budget has a fixed ceiling, and resources are now fully fungible across expense line items. A Complex will also be authorised to move budgets across its departments without central approval. However, transfers between Complexes and other extraordinary budget transfers (from contingency, capital budget) are still subject to higher level approval.[11 12] The fungibility of salaries, which represents the largest budget line, has been frozen since 2012 except for vacant positions.	Completed in 2007
Introduction of UA Budgeting	Moderately satisfactory	UA budgeting was formally introduced in January 2010. Under the new system, the budget is determined on the basis of the Work Programme. The workload (staff-time, consultants, missions, travels) is translated into the total resources needed to execute the Work Programme. Budgets are managed in terms of the total UA envelope allocated to each Cost Centre, and not in terms of staff positions and line items.	Introduced in 2010
Introduction of "charge-back" system for some overhead costs	Moderately unsatisfactory	Under this system, costs still managed by a central department are charged to Complexes based on their usage of a service. This component of UA budgeting is still in an exploratory phase as of 2014, although there is no clear indication that it is seriously being considered.[2] Planned to be completed by 2015.	Ongoing
Introduction of Country Budget Management	Moderately unsatisfactory	Under this system, Country Work Programme related resources will be managed by the Regional Directors. The implementation of this depends on further changes to the business processes, significant restructuring of the delegation of authority matrix, better coordination across Operations Complexes and strong Work Programming and resource management capacity Bank-wide. Planned to be completed by 2015.	Ongoing
Staff Management Devolution			
Delegation of staff salaries to Complex level	Moderately satisfactory	The decentralisation of budget management authority included staff salaries (CHRM still retains responsibility for benefits policy and payment).[11 12] The measure was introduced in 2010, but creation of new posts were frozen in 2012.	2010 - Ongoing
Elimination of headcount controls with the introduction of UA budgeting	Moderately unsatisfactory	Headcount controls were eliminated and the fixed-cost ratio was introduced with UA budgeting in January 2010.[5] The creation of new positions was frozen in 2012 in response to persistent high vacancy ratios. Full (re)implementation of the use of fixed cost ratio is unclear at this time. The measure was introduced in 2010, but creation of new posts were frozen in 2012.	2010 - Ongoing

Measures envisaged	Status	Steps taken and objectives	Timeline
Augmented staff management capabilities for managers	Moderately satisfactory	With the implementation of UA budgeting, Managers may hire subject to the fixed-cost ratio, budget availability and Bank staff rules.[5] However, the creation of new posts has been frozen since 2012. The measure was introduced in 2010, but creation of new posts were frozen in 2012.	2010 - Ongoing
Enhanced central coordination (CHRM & COPB) and staff planning process	Moderately unsatisfactory	Beginning in 2013, CHRM is now primarily responsible for staff planning, with COPB playing a support role to ensure that positions are assigned in line with institutional priorities and adequate budgetary provisions are made. COPB also reviews Complexes' compliance with their established FCRs and takes pre-emptive action to correct cases in which Complexes exceed the FCR.[5] The staff planning process laid out in the 2011 guidelines is not currently followed. Instead, the small number of vacant positions that do exist are held in reserve at the level of the First Vice President and allocated based on need throughout the year, although it seems that vacant positions are allocated principally for the purpose of moving the resources to other budget lines and not to hire new staff. Cooperation between CHRM and COPB is lacking, due to divergent perceptions on Human Resources.	2013 - ongoing
Strengthening of reporting tools for staff time resources	Moderately unsatisfactory	ATRS has been rolled out and captures staff time resources spent on various deliverables (as structured by the WBS). This is fed into the CAS Engine and (through SAP BW) will eventually provide detailed analysis reports on staffing, amongst other topics.[2] The reliability and completeness of data remains poor due to poor design of the work breakdown structure and low staff buy-in.	Ongoing
Partial delegation of staff benefits to Complexes	Unsatisfactory	No action has been taken as of 2014.[16] There is no evidence that this is currently being seriously considered.	Not completed
Budget and Work Programme Planning			
Enhancement of the tool Strategic Resources Assessment Software	Moderately satisfactory	SRAS was initially developed and rolled out prior to the beginning of the reform process in 2006. The system has continually been enhanced on an almost yearly basis with the introduction of new functionalities (e.g. prioritisation) and interconnections with other systems (e.g. some limited connection to SAP).[2]	2006 - ongoing
Streamlining of budgeting and programing cycles (IOP, INOP & Budget are merged into the PBD)	Satisfactory	The 2009-2011 Programme and Budget Document was the first to combine the previously separate Board papers on the Indicative Operational Work Programme and budget; it also included the Indicative Non-Operational Work Programme.[10]	Introduced in 2009
Establishment of a multi-annual budgeting and programming framework (3-year rolling plan budget)	Satisfactory	A 3-year rolling budget process was launched to prepare a consolidated programming and budgeting proposal beginning with the period 2009-2011.[14]	Introduced in 2009
Introduction of Country Work Programme Agreements & non-operational WPAs	Moderately satisfactory	Beginning in 2008, Regional Department Directors must approve the Country Work Programme (i.e. the list of operations in the proposed IOP per RMC). This approval process is integrated into the SRAS system. Regional Directors check the coherence of projects with the Country and Regional Strategy Papers and ADF lending ceiling and ADB sustainable lending levels. However, there appears to be no formal agreement drawn up between the sector and regional departments. Guidelines state that it is expected that non-operational Complexes coordinate closely with operational Complexes; however, there is no formal Work Programme Agreement and little evidence of a formalised system of coordination during the planning process.	Introduced in 2008

Measures envisaged	Status	Steps taken and objectives	Timeline
Enhanced coordination and analytical role at the central level	Moderately satisfactory	Creation of the COPB in 2013 (to replace COBS) with enhanced responsibilities over the budgeting and resource allocation process.[7] COPB now comprises two divisions: (i) Programming; and (ii) Budget Execution Coordination. This organisational fine-tuning is expected to yield synergies across the existing four teams in order to strengthen their capacity for analytical support on budget programming and performance.	2013 - ongoing
Enhanced strategic direction from Management	Moderately satisfactory	The Management proposal for the budget reform underlined the need for greater strategic direction to be given at the initial phase of the annual budget process where institutional priorities and initiatives that affect budget allocations are defined for the next fiscal year and beyond. The Strategic Direction Note in particular was mentioned. However, there continues to be little upfront strategic decision making, and the content of the SDN has evolved little.	2007 - ongoing
Earlier engagement with the Board during the planning process	Moderately satisfactory	Since 2013, the Board has been consulted as early as June in the planning process for the presentation and discussion of the PBD Framework document.	2013 - ongoing
Monitoring & Accountability Framework			
Formulation of KPIs to assess progress in implementing institutional priorities and Work Programme at organisational and complex levels	Moderately satisfactory	A list of institutional and Complex-level KPIs was completed in May 2007.[3] Beginning in 2008, the set of aforementioned KPIs is used for mandatory reporting by Management to the Board on a quarterly basis. Complexes must report on KPI progress quarterly and quarterly reports will serve as basis for performance discussions amongst Division Managers, Department Directors, Vice Presidents and the Office of the President[11] These KPIs are aligned with the Bank's overall Results Measurement Framework (RMF levels II and III), which also includes KPIs measuring development effectiveness and achievement of institutional priorities. Some difficulties remain in developing consistent and robust Complex level KPIs within some Complexes and on-going efforts are made to improve these and complement output-focused KPIs with true impact indicators. No KPIs have yet to be developed on the level of the Department or Division.	2007 - ongoing improvement
Strengthening of performance reporting	Satisfactory	A suite of periodic performance reports has been designed: monthly (Complex/BDIR), quarterly (to Board/Management/Field Office Reports), mid-year (MYPF) and annual retrospective performance reviews reports prepared with the support of the Budget Coordinators. However, development of real-time performance tools is lagging behind. Management has developed a KPI Dashboard to monitor Bank Performance through the set of established KPIs.[1013] A country KPI dashboard is also under development and will be tested in the coming months. While a great deal of reporting data exists, taking a snapshot of performance at the managerial level still requires some manual work.	2007 - ongoing
Implementation of Cost Accounting (CAS) to provide accurate costs of outputs	Moderately unsatisfactory	Necessary tools (e.g. WBS, the ATRS & the CAS engine) have been rolled out. Debuted in January 2010, the use of WBS elements is now mandatory (since 2012) for collecting cost information about activities, countries, sectors, project phases and year of expenditure; however, there appear to be some consistent problems with the use of WBS elements and the quality of data. The ATRS was implemented in phases between 2010 and 2013, although use of the system amongst staff remains low, creating a critical information gap in the CAS system. Compiled 2013 data showed notable progress in necessary reporting requirements for CAS, but significant amounts of missing data (notably staff costs).	2010 - ongoing

Measures envisaged	Status	Steps taken and objectives	Timeline
Introduction of the Complex Framework Paper	Moderately satisfactory	Beginning in 2012, Management introduced the Complex Framework Paper (CFP) which requires all complexes to prepare detailed documentation of their planned Work Programmes, with clearly indicated objectives, expected results and the resources required to achieve these as well as a number of other strategic elements (e.g. alignment, cost-cutting).[9] Each VP must present the CFP before the Budget Committee. The CFP model distributed to Complexes has been considerably simplified and streamlined since its introduction. The quality of CFPs is generally improving although varied in details.	Introduced in 2012
Introduction of Performance Contracts	Moderately satisfactory	Performance contracts have been introduced for 2014, although there is some evidence that an attempt was also made in 2011.[2] The performance contracts are linked to the CFPs and are signed by each VP on behalf of their Complex. The monitoring of Complexes' Work Programme execution and budget efficiency and effectiveness will theoretically be assessed on the basis of the performance contracts in the future. Complex Performance Indicators are linked to and aligned with the Bank's RMF. Directors are expected in turn sign PCs with their respective VPs, and the Managers will sign with the Directors.[16] While contracts have been signed on the Complex level, their contents are confidential. PCs are yet to "cascade" down to the Director and Manager levels.	Introduced in 2014
Productivity Incentive Tax	Unsatisfactory	This initiative is designed to encourage Complexes to examine ways of improving efficiencies and cutting down on costs by establishing an incentive system. A concept paper is currently under preparation by COPB.[16] Planned to be completed by 2015.	
Capacity Building			
Strengthen budget capacity at the Complex level through the appointment of full time Budget and Resource Management Coordinators to Complexes.	Satisfactory	Full time Budget and Resource Management Coordinators were appointed to handle all budget issues within each Complex.[10] Budget Focal Points have also been appointed within each Department and Division. There may be some additional need to reinforce the capacity of Budget Coordinators in larger Complexes and to streamline the system for appointing Budget Focal Points.	Introduced in 2009
Training sessions organised by COPB	Moderately satisfactory	At the beginning of each budget exercise COPB conducts training sessions for all organisational units in May/June. Since 2013, COPB has also organised informal and formal information sessions, dialogues, and user validation workshops for new initiatives and training sessions for the Bank-wide user community including the field offices. In addition, a communication and capacity building programme targeting all organisational units including field offices has been rolled out, offering continuous information on budget initiatives and issues as well as training. COPB and CHRM have cooperated in enhancing the budget training provided during induction programmes for newly recruited staff.[9]	Ongoing

Measures envisaged	Status	Steps taken and objectives	Timeline
Guidance notes and process guidelines	Moderately satisfactory	To assist Complexes in adapting to UA budgeting, COBS issued a series of guidance notes covering decentralisation of budgets; budget fungibility; definition and determination of costs of products and processes, enhanced role of CHRM under UA budgeting (highlighting areas requiring special attention), fixed-cost ratio, staff planning, controls against budget overruns at the complex level, budget adjustment for inflation, KPI and budget monitoring and reporting. COPB also publishes Work Programme and budget planning process guidelines each year at the beginning of the cycle, however the consistency, clarity and quality of the guidelines has varied. CHRM published staff resource planning guidelines in 2011, but these have not since been updated, despite the considerable changes to the system for HR planning.	Completed in 2009
Internal communications on budget reform	Moderately satisfactory	Information on budget processes available on the intranet and creation of a budget hotline and help desk. However, most support is provided informally through Budget Coordinators and Focal Points.	Ongoing
Preparation of a change management strategy	Unsatisfactory	No evidence has been found concerning the preparation of a change management strategy to accompany the implementation of the budget reform.	Not completed

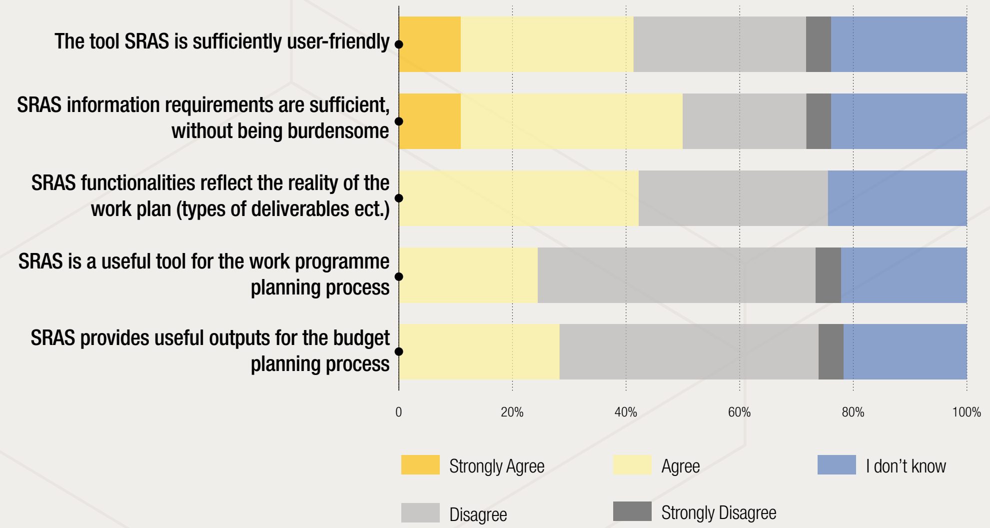
Sources:

1 Management Proposal on Enhanced Budget Processes (2007)
2 Presentation to the Board on Budget Management Reform, Processes and Systems (April 2014)
3 Main Report: Enhanced Budget Processes (date unknown)
4 Guidance Note: Controls Against Budget Overruns (2010)
5 Guidelines on Fixed-Cost Ratio (2009)
6 Guidance Note: Budget Fungibility (2009)
7 ToR - The Programming and Budget Department (COPB) (2013)
8 Revised Staff Planning Guiding Principles (2011)
9 Management Response to the External Consultant's Report on the Implementation of Budget Reform (2013)
10 Review of the implementation of Budget Reform: An Independent External Consultant Report
11 Inter-Office Memorandum: 2008 Operating Budget Preparation Guidelines
12 2007 Budget Transfer Guidelines and Procedures
13 Training Session: Budget for Cost Centre Managers/Complexes (2008)
14 Launching the 2011-2013 Programme and Budget Document Preparation
15 2011 Programming & Budget Proposals
16 2014 – 2016 Rolling Plan and Budget

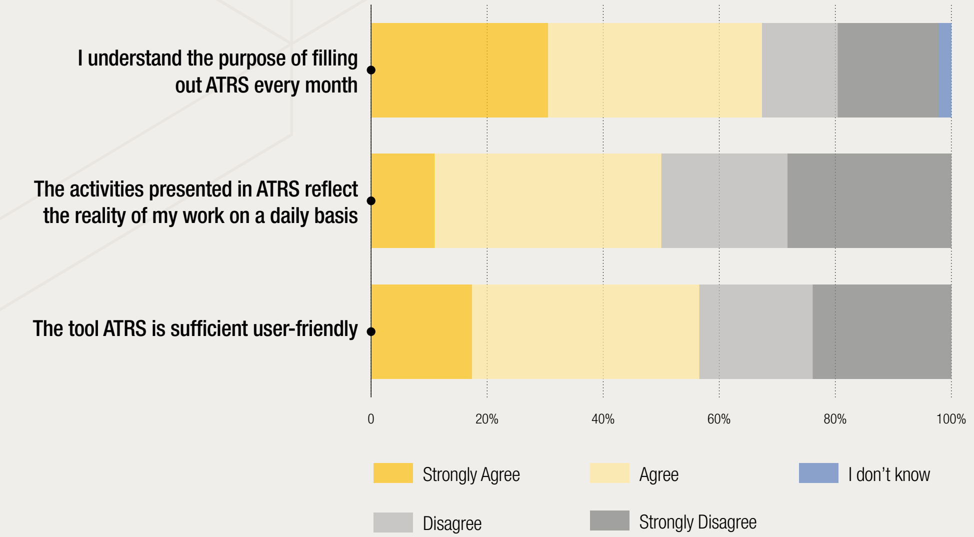
Rating	Summary
Satisfactory	Good performance against all or nearly all aspects reviewed
Moderately satisfactory	Good performance against the majority but not all aspects
Moderately unsatisfactory	Good performance against only some aspects
Unsatisfactory	Limited performance for few or no aspects

Annex 4 — Key Online Results Implementation

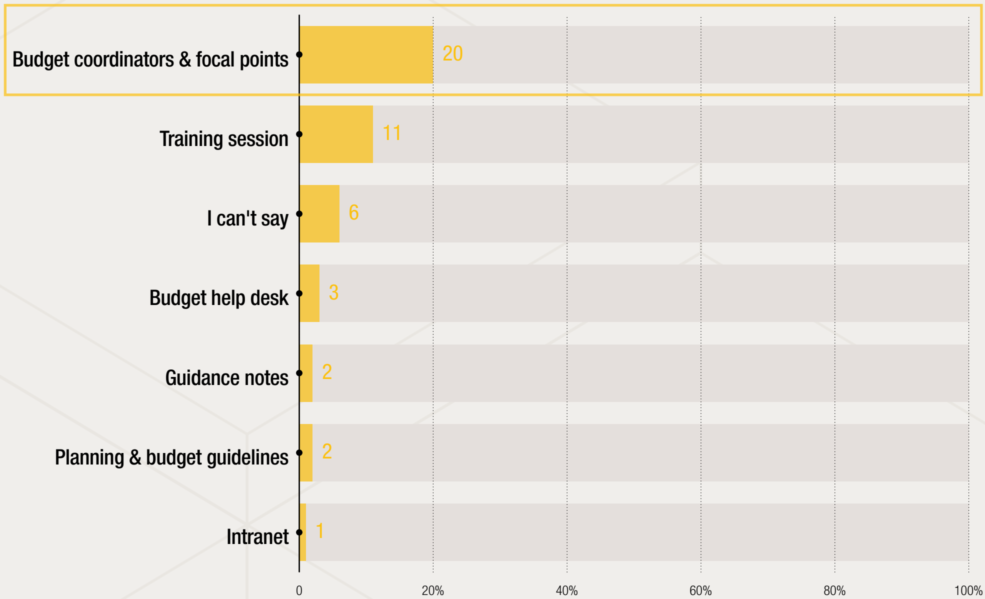
a. To what extent do you agree with the following statements concerning the Strategic Resources Assessment Software (SRAS)?



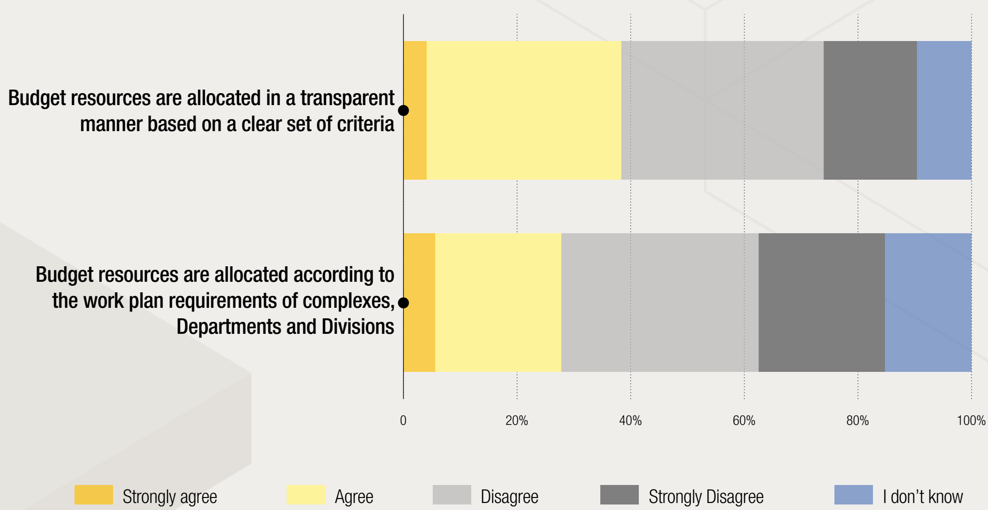
b. To what extent do you agree with the following statements on the Activity Time Recording System (ATRS)?



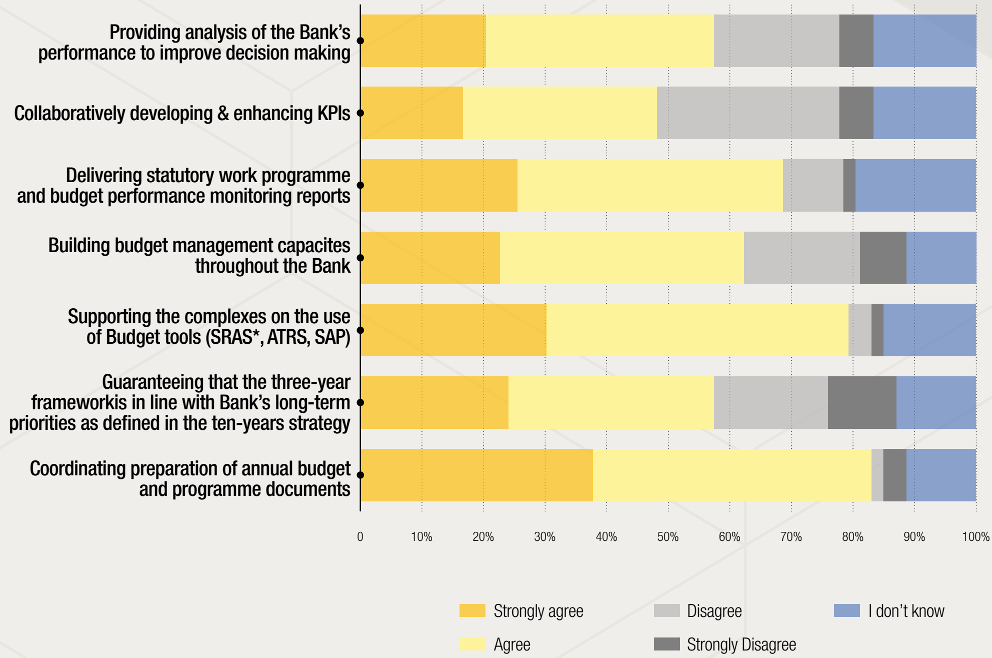
c. What have been the most important sources of training and guidance on budget issues for you?



d. To what extent do you agree with the following statements concerning the budget and work programme planning cycle?



e. How would you describe the role of Planning and Budget Department (COPB)?



Annex 5 — Benchmarking Information Implementation

Table A5.1: Comparative overview of budget management decentralisation, flexibility and fungibility

WB	ADB	IDB	AfDB	AFD
Budget Management				
Highly decentralised	Centralised	Decentralised	Decentralised	Decentralised
Fungibility (between budget lines)				
- Within buckets to a certain degree - Between budgets in only certain directions (PPM to CE)	- Business travel/staff consultants (limited fungibility to staff consultants) - Administrative expenses (between certain expense items)	- Within certain non-personnel cost budget lines - From personnel cost to certain non-personnel cost budget lines	- Salaries, mission, and consultancy (from all budget lines/to certain budget lines) - Hospitality and Entertainment (from certain budget lines/ to all budget lines)	- Total fungibility with the exception of salaries, training costs and travel costs (exceptional)
Flexibility (budget transfers)				
- Within Complexes, Departments and Divisions	- Within Departments and Offices on an on-going basis - Between Departments/ Complexes during the mid-year review	- Within Complexes and Departments	- Within/between Divisions/ Departments/ Complexes on an on-going basis - Institution-wide readjustment during the mid-year review	- Within divisions

Table A5.2: Overview of monitoring and accountability measures

	WB	ADB	IDB	AFD	AfDB
Results Measurement Framework	Yes	Yes	Yes	No	Yes
KPIs (Institutional level)	Yes	Yes	Yes	NA	Yes
KPIs (Complex level)	Yes	Yes	Yes	NA	Yes
KPIs (Departmental level)	Yes	Yes	Yes	NA	No
Time Recording System	Yes	In progress	Yes	Yes	Yes
Cost Accounting System	Yes	No	Yes	Yes	In progress
Regular budget and performance reporting	Yes	Yes	Yes	Yes	Yes
Online, real-time access to budget and performance reporting	Yes	Limited	Yes	In progress	In progress
Performance Contracts	Yes	No	Yes	NA	Yes
WPAs	Yes	No	Yes	No	Yes
Country Budgeting	Yes	No	Yes	No	No

Table A5.3: Comparative overview of budget and work programme planning processes

	WB	ADB	IDB	AFD	AfDB
Definition of priorities	▪ **Month 1:** Management discussion on strategic priorities (W1) ▪ **Month 1**: Engagement with the Board on corporate planning priorities on WBG level ▪ **Corporate planning priorities on WBG level** ▪ **Month 2-3:** Units respond to strategic guidance through questionnaire responses (W2)	▪ **Month 1:** Senior management discussions on priorities ▪ **Presidential Planning Directions Memo**	▪ **Month 1:** Senior management discussion on priorities ▪ **Strategic Outlook Document**	▪ **Month 1:** Discussion of priorities with the reporting ministry and formalise in an agreement (Convention d'Objectifs et de Moyens) ▪ **Month 1:** Definition of macro-budgets ▪ **Objectives and Means Contract** ▪ **Macro-budgets**	▪ Senior management retreats and budget roundtables
Strategic directions	▪ **Month 3-4:** Institution-specific management discussions, followed by WBG management discussion on country/region/global work programme opportunities, and shifts and trade-offs (W3) ▪ **Budget trajectories given to units (3 years)** ▪ Engagement with the Board on Outcome of Units' Strategic Planning Phase	▪ **Month 3:** Call launched for work programmes and distribution of work programme guidelines ▪ **Month 5:** Budget preparation guidelines released	▪ **Month 4:** First discussions with the Board ▪ **Month 4:** Strategic Budget Committee discussions and key allocation decisions ▪ **Budget Issues Paper** ▪ **Month 6:** Budget and work programme call and distribution of guidelines and templates	▪ **Month 3:** Senior management discussion ▪ **Month 3:** Allocation of budget envelopes	▪ **Month 1:** President defines strategic directions ▪ **Strategic Direction Note** ▪ **Month 1:** Publication of budget guidelines ▪ **Month 2:** Discussion and definition of budget baselines ▪ **Budget baselines given to VPUs**

	WB	ADB	IDB	AFD	AfDB

Programme planning and budgeting	- **Month 4-6:** Units conduct work programme planning and budgeting – including negotiation of Work Programme Agreements (W4)	- **Month 3:** submission of Departmental work programmes
		- **Month 4-5:** Preparation of the 3-year WPBF and Budget Preview by the Budget and Strategy Departments
		  - **Work Programme and Budget Framework Document (3 years)**
		- **Month 6-7:** Preparation of the Budget in consultation with Departments/ Offices
		  - **Budget Document**
			- **Months 6:** Submission of the business plans and budget requirements and negotiation of Work Programme Agreements
			- **Month 6/7:** Review of the business plan and budget submissions by the strategy and budget teams
			  - **Draft Work Programme and Budget Document (1 year)**
				- **Month 4:** Divisions elaborate indicative work programmes and resource requirements
				  - **Divisions work programmes and budgets**
					- **Month 2:** Prioritisation and arbitration of Complex work programmes and resource requirements
					- **Month 3:** Consolidation on the Complex level
					  - **Complex Framework Paper**
					- **Month 4:** Discussion of the Complex Framework Papers by the Budget Committee
					- **Month 4-5:** Adjustment and arbitration (as needed) and preparation of the draft document
					  - **PBD Framework Document**

Discussion and approval	- **Month 7:** Confirmation of unit budget envelopes and work programmes (W5)
	  - **Strategy Paper (MTBF) WBG summary**
	- **Month 8-9:** Discussion and approval by the Board
	  - **Budget Document WBG Summary**
		- **Month 6:** Informal Board meeting to discuss the WPBF
		- **Month 6-7:** Board discussion of the WPBF
		- **Month 8:** BRC deliberation of the Draft Budget and Departmental/ office presentations
		- **Month 9:** Full Board discussion and approval of the Budget
		  - **Final Budget Document**
			- **Month 7:** First presentation to of the programme and budget document to BUFIPOL and subsequent discussions
			- **Month 8:** Final discussion and Approval by the Board
			  - **Approved Programme and Budget Document**
				- **Month 5:** Discussion and approval
				  - **Final Work Programme and Budget**
					- **Month 5:** Presentation of the PBD Framework Document to the informal Board
					- **Month 5-6:** Adjustment and preparation of the final PBD
					  - **Programme and Budget Document**
					- **Month 7-8:** Presentation and discussion of the PBD in the Committee of the Whole
					- **Month 8**: Final discussion and approval
					  - **Final Programme and Budget Document**

Table A5.4: Comparator practices in administrative budget management – Lessons for African Development Bank

Capacity and reform implementation
▌ The reform approach pursued at the World Bank (WB) illustrates the importance **of embedding budget reform within the wide institutional reform landscape** in order to fully leverage synergies between reform areas and head off any negative consequences of incoherence. The experience of the WB also demonstrates that large-scale institutional reform must be accompanied by strong executive leadership and a clear change management strategy, both of which were found to be lacking at the AfDB. **Reform implementation at the AfDB has been highly compartmentalised on a strategic level**, even if coordination is found on the day-to-day operational level of reform implementation. ▌ The experience of the IDB and AFD provide useful insights for the AfDB concerning the roll out of the ATRS. One of the keys to success in the AFD's experience was **creating a high level of executive buy-in** from the beginning by engaging Management early on and 'selling' the system. The AfDB has **struggled to create buy-in down the managerial hierarchy,** because of weak support amongst some Managers. Finally, the IDB's experience illustrates the **effectiveness of soft incentives in ensuring sustained executive buy-in and reinforcing the accountability framework.** While the AfDB reports on ATRS usage, this is done **internally and not clearly communicated as a KPI to the Board, significantly weakening the incentive.** ▌ Best practices cited at the ADB and IDB illustrate that **trust and clear communication between managers and the Budget Department is not just crucial for creating efficient and effective working relationships, but also instilling positive behaviour.** For instance, Managers reported that they felt a high level of trust that Budget colleagues would work proactively with them to address needs and shortcomings, thus removing incentives for sub-optimal behaviours.
Cost saving measures
▌ The experience of the WB with its Expenditure Review highlights the utility of external benchmarking. A cultural reluctance has been noted at the AfDB as well as other institutions to compare themselves with private sector metrics and processes. While these are often far from comparable, the Expenditure Review demonstrated that external benchmarking forces management to critically assess what portion of the performance gap can reasonably be attributed to fundamental differences and what portion can be linked to simple inefficiencies. ▌ Best practices highlighted at the WB and ADB illustrate that **Managers are ultimately best placed to implement cost-saving measures in the most optimal manner.** They have the best vision of where the 'fat' is that can be cut and where sustained levels of resources are needed to deliver work programmes, which can vary dramatically between units. AfDB Management, as well as that of **other MDBs, has often been overly fixated with controlling spending on budget lines, such as consultancy and travel, rather than focusing strategic discussions on resource growth trajectories on the macro-level.**
Efficiency: budget and work programme planning process
▌ **All three MDBs have created Budget Committees to assist the Board in carrying out its responsibilities in this area.** Experiences at the WB, ADB and IDB show that such a Committee has proven useful in terms of creating stronger and more focused relationships between the Board and Management, contributing to higher quality and more strategic discussions and streamlining the relationship itself, addressing inefficiencies noted at the AfDB. However, their experiences have demonstrated that a Budget Committee is not cost-neutral and that the Terms of Reference and rules of procedure must be carefully considered in order to optimise the functioning of the committees. The experience of the AfDB has shown that the **lack of a Budget Committee has contributed to unstructured, ad hoc relations of an insufficient strategic nature and high transaction intensities.** ▌ While the planning process at the AfDB continued to be characterised by a very bottom-up approach, the **comparator organisations have all moved towards a more top-down model,** with Senior Management providing clear strategic direction at the beginning of the process, which is translated into reallocation decisions. This approach has positive impacts in terms of ensuring the strategic alignment of budget resources, but also in terms of reducing the intensity and/or overall duration of the planning process. This process remains a highly intensive one at the AfDB, with multiple rounds of arbitration and bartering between Complexes. ▌ The experiences of the WB, ADB and IDB have pointed to an **anomaly in the planning practices of the AfDB in terms of budgeting for the outer years of the multi-annual planning framework.** The AfDB is the only institution to prepare detailed budgets for all three years, whereas the others only estimate high-level trajectories for the outer two years. The experience of the AfDB has illustrated that **detailed budgeting for the outer years does not appear to provide any added value and creates high information requirements.**

Effectiveness: budget and Work Programme planning process
▌ The experience of the WB, ADB, IDB and AFD have all illustrated the **advantages of putting in place a stronger top-down element in the planning process.** As mentioned, this has clear efficiency implications, but it also contributes to clearer strategic alignment of resources with evolving priorities and greater transparency in the planning process. Top-down mechanisms in the planning process provide Management with an effective lever to easily and quickly shift resource allocation to respond to changing needs. It also places greater emphasis on strategic discussions at Senior Management level. **Strategic direction is too often lost in the multiple rounds of arbitration at the AfDB and the bottom-up approach provides few incentives for Management to engage in up-front strategic discussions.** Finally, the approach taken at the WB is worth noting, because it has attempted to reconcile **a strong bottom-up tradition with the need for greater strategic decisiveness in resource allocation.**
Monitoring and accountability
▌ The **country budgeting systems in place at the WB and IDB have highlighted the positive impacts of this approach in terms of reinforcing internal accountability and ensuring clear country leadership.** The use of WPAs at the AfDB has contributed to strengthening cross-organisational planning but has **failed to achieve the same effects in terms of reinforcing accountability.** ▌ Powerful tools being developed at the IDB illustrate the **direct benefit to managers of more powerful monitoring systems and system integration in terms of promoting more rigorous tracking of costs, supporting the emergence of a culture of internal benchmarking and enhancing accountability.** While the AfDB has or currently is developing many of the same tools, it has **not clearly mapped out how it will fully integrate and leverage them in the long term, particularly in terms of providing useful tools to managers.**

Endnotes

1. The benchmark exercise covered four comparator organisations, including three Multilateral Development Banks and one Bilateral Development Agency: the World Bank (IDA & IBRD), the Inter-American Development Bank, the Asian Development Bank and the Agence française de développement. A detailed benchmarking report reviewed by comparator organisations is available.
2. Fixed Cost Ratios (FCR) refers to the ratio of salaries and decentralised benefits (fixed costs) to the total approved budget of the Vice Presidential Units (including the Units reporting to the President), for a fiscal year. In the absence of headcount control, FCR acts as a) a control mechanism for the VPUs to ensure oversight of staffing changes and staff costs; and b) maintain flexibility and a reasonable balance between staff costs and other costs in utilising their budget.
3. During interviews for this evaluation, Bank staff have revealed that there were several cases of consultancy contracts initiated in the fourth quarter that were hastily issued without adequate due diligence, and, as a result, many of them had to be eventually terminated, as the work done was of poor quality or only partially completed.
4. UA Budgeting refers to the Bank Group's new budgeting system that determines the budgets required by Cost Centres (CCs) by first deciding the work programme to be funded, and thereafter translating the workload (staff-time, consultants, missions, travels etc.) into the total resources needed to execute the work programme. Budgets are managed in terms of the total UA envelope allocated to each CC, and not in terms of staff positions and line items. UA budgeting aims to: (i) decentralise budget management to CCs; (ii) provide Managers with fully flexible resources; (iii) help Managers to focus on delivery and results; (iv) remove headcount and expense line-item controls; and (v) align resources to products/deliverables.
5. African Development Bank. 2006. Human Resources Management Strategic Framework and Action Plan. ADB/BD/WP/2006/67/Rev.3
6. African Development Bank Group 2003-2007 Strategic Plan.
7. AfDB. 2012. Review of the implementation of Budget Reform: An Independent External Consultant's Report. ADF/BD/IF/2013/169
8. AfDB. 2015. 2015–2017 Rolling Plan and Budget Document - Final Version, ADF/BD/WP/2014/119/Rev.1/Final
9. AfDB. 2012. Review of the Implementation of Budget Reforms: An Independent External Consultant Report. ADF/BD/IF/2013/169
10. The working group recommended: i) cancellation of headcount control and reinstating the use of Complex-level Fixed Cost Ratios; ii) introduction of complement control at PL3/PL4 and PL1/PL2 to prevent grade creep; iii) discontinuing the institutional pool of vacancies and replacing it with annual contingency budget maintained in COO front office; and iv) flexibility in the use of consultants in terms of the type of contracts and the ceiling on individual consultancies.
11. Extrapolation based on e-survey results counting budget staff and focal points, EDs, VPs, Directors and Managers, assuming 240 days worked per year and 54 EDs, 140 budget staff, Coordinators and Focal Points, 9 VPs and 118 Managers and Directors.
12. In the Asian Development Bank, the Work Programme and Budget planning processes are initiated with a strategic memo from the President. The ADB strategic memo has clear operational focus and places emphasis on strategic priorities. In addition to an overview of operational priorities and lending targets, the Presidential Planning Directions memo includes an appendix with a detailed list of key actions to implement the strategic priorities of the Bank. During the Budget Review Committee's (BRC) discussion of the proposed Budget, all heads of Departments and Offices must present to the BRC the accomplishments of the current year, their work plans for the coming year and the budgetary resources requested on the basis of that work plan, as well as any challenges they expect to face in the coming year. According to ADB stakeholders interviewed, this creates a high level of incentive for managers to justify clearly their budget resource requests.
13. The budget system of the Bank prior to the reform was quite rigid with regard to transfers. For example, under the then prevailing Financial Regulation 5.6(2), moving one UA between line items within the Administrative Expenditure budget from personnel expenses to general expenses requires the approval of the President and disclosure to the Board of Directors.
14. This included two major budget support loans to Botswana (UA 969.0 million) and Mauritius (UA 437.3 million).
15. The budget system of the Bank prior to the reform was quite rigid with regard to transfers. For example, under the then prevailing Financial Regulation 5.6(2), moving one UA between line items within the Administrative Expenditure budget from personnel expenses to general expenses required the approval of the President and disclosure to the Board of Directors.
16. Until the 2014-2016 budget cycle, the Bank's definition for Operations included the 'operational Complexes of ORVP, OIVP, OSVP, ECON, and the 100% Operational Units outside Operations Complexes including OPEV, GECL1, GECL2, OPSC, CRMU, FFMA2, FTRY4, FFCO3, PECOD and ORQR.' The revised definition has been used for the 2015-2017 budget cycle. For the sake of comparability of the data available to the Bank, the former definition is used in this evaluation
17. The KPIs covered i) strategic alignment; ii) financing; iii) country focus; iv) effectiveness and efficiency in service delivery; v) budgetary growth control; vi) budget control and ceiling; and vii) efficiency in budget implementation
18. IDEV, which was part of the PRST until recently, has KPIs and is now part of the UBRD.

Administrative Budget Management of the African Development Bank: An Independent Evaluation - Summary Report

IDEV Corporate Evaluation, September 2015

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Design & layout: CRÉON – www.creondesign.net
Original language: English

An IDEV **Corporate Evaluation**

About this Publication

This summary report presents the results of an independent evaluation of the efficiency and effectiveness of the African Development Bank's administrative budget management. The evaluation's overarching objective was to assess the extent to which the management of the Bank's administrative budget provides efficiency and effectiveness in delivering on its strategic priorities and areas where further improvements may be possible. The evaluation also assessed the extent to which key actions recommended by the 2012 review of budget reform had been implemented.

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