Administrative budget management at the Bank is guided by an ambitious reform agenda approved by the Board of Directors in 2007 to address some of the key challenges to the Bank’s efficiency and effectiveness.

The evaluation found that the budget reform was, by design, relevant and to a great extent articulated and integrated with other components of the Bank’s reforms. ...It also found that, overall, the implementation of budget reform has been challenging. Its chronology and sequencing has not always respected either the timetable set out in 2007 or the overall logic of the reform.
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-VI (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 the 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 to address some of the key challenges to the Bank’s efficiency and effectiveness. It therefore 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 therefore occupied a central position in this evaluation.

Scope and Approach of the Evaluation

The evaluation was guided by four principal questions that dealt with: i) the appropriateness of the Bank’s tools and systems for managing its administrative
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 organizational changes at the Bank. Three different reforms critical to the budget reform were: a) the organizational 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 decentralization strategy including the 2010 roadmap. Coherence of the interrelated reforms that may enable or constrain their successful implementation and sequencing of their implementation was envisaged in the 2007 management proposal and subsequent documents announcing 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 very much remains a work in progress. Most of the key measures have been implemented in a technical sense, but are yet to translate into tangible results. This is largely due to inadequate sequencing and delays in implementation and staff uptake of the reform measures initiated. Some measures have been reversed de facto in the course of their implementation due to difficulties such as the devolution of staff management.

Overall, the implementation of budget reform has been challenging. Its chronology and sequencing has not always respected either 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 reform’s overall effectiveness. While the dynamic nature of this process could be considered a positive aspect of the overall reform implementation program, 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 institutionalized and formalized coordination among 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 but the tool is not seen as user-friendly and there have been technical snags in the past. Its development has required constant fine-tuning and it is not integrated with other important Bank systems. 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 because of usage issues with the underlying Activity Time Recording System (ATRS) and Work Breakdown Structure (WBS).

Behavioral changes required for effective implementation of reform were not adequately addressed. The reform is well advanced in achieving one of its key objectives of reinforcing budget management capacity, with considerable efforts made to develop capacity at the Complex level to accompany the devolution of budget management authority. However, capacity development requires further improvement, as technical aspects have been the focus and inadequate attention has been paid to bringing about cultural and behavioral changes. While the former are necessary preconditions, the latter ultimately represent the key enabler for reform success.

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

The budget reform has had a limited effect on institutional efficiency. An analysis of some institutional efficiency indicators shows a negative trend over the past five years. For example, the removal of headcount control and the introduction of Fixed Cost Ratios (FCR) 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 and per million UA lending have risen steadily 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 (Figure S1). There has been a significant improvement in the budget execution rate since 2009 (Figure S2) reflecting improved flexibility although not necessarily better efficiency. To some extent an unproductive surge in fourth quarter spending continues as was the case in the pre-reform period. On a positive note, the percentage of budget spent on operational activities has increased in recent years from 52.4% in 2011 to 54.8% in 2013. However, it is lower than the 2008 level [58.5%].

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 by identifying areas for efficiency gains and facilitating internal and external benchmarking.

Source: Annual retrospective reviews of the administrative budget and performance

Source: SAP extractions
Although the alignment of resource allocation with strategic objectives shows a positive trend, up-front strategic priority setting and use of results data still need to be strengthened. The Bank has made efforts to move beyond an incremental approach to budget allocation based on historical trends to one based on the work program 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 [Figure S3]. Yet a widespread perception remains of a weak linkage between budget allocation and the work program and the planning process continues to include an insufficient level of strategic decision-making, and continues to be driven principally by bottom-up forces and bartering between Complexes. Lack of an 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. Board members have consistently requested deeper engagement on budget issues for some time, but this is yet to materialize. Finally, the budget planning process has not fully integrated the availability of external resources (trust funds) to finance the implementation of the work program.

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 [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 system4 and controls still remain on fungibility and flexibility. At the Field Office (FO) level, capacity constraints necessitated continued HQ control over budgetary decisions at that level. The accountability framework remains underdeveloped, despite the devolution of more budget responsibility. The

The budget reform has helped improve the monitoring and reporting framework, but there is scope for progress as this has yet to translate into a data-driven performance culture.
accountability framework has been slowly reinforced by improvements in performance monitoring and other measures, such as Work Program 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 only been put in place more recently. While this is a first positive step, it should be noted that a framework of positive and
negative incentives should accompany the contracts for them to be truly effective. While the achievements were notable, the accountability framework has been reinforced far 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 the devolution of increased responsibility and is 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, but there is further room to improve their quality. 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

<table>
<thead>
<tr>
<th>Evaluation criteria and evaluation questions</th>
<th>Overall rating</th>
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</thead>
<tbody>
<tr>
<td>Relevance and coherence</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Was the budget reform in line with needs?</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Was the budget reform well-articulated with other reform agendas?</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Implementation</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>How effective was the implementation of the budget reform?</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>Has the budget reform delivered its planned outputs?</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>Are budget planning and executive activities efficient?</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>Are resources used efficiently?</td>
<td>Moderately Unsatisfactory</td>
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<tr>
<td>Effectiveness</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>To what extent does the budget system support a greater alignment with the TYS?</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>To what extent does the budget system support an output-based resource allocation?</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>Does the budget framework ensure optimal flexibility?</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>Is the utilisation of resources monitored for accountability purposes?</td>
<td>Unsatisfactory</td>
</tr>
<tr>
<td>Overall rating</td>
<td>Moderately Unsatisfactory</td>
</tr>
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are not actively used in decision-making and day-to-day management. COPB is commencing efforts to institutionalize 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 (Table S1).

**Lessons**

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

1. **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.
2. Sequencing. Agendas in a given reform package should be appropriately sequenced at the design 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.

3. Cultural and behavioral change. Effective implementation of institutional reform requires cultural and behavioral 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.

4. 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 the full implementation of budget reform

- Review the priorities and sequencing so that they cohere with other institutional reforms and fix a clear deadline for fully implementing reform measures. A staff management devolution and accountability framework should be implemented as a 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 and 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 center 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 to realize the full potential of Work Program 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 visualization.
iii. Simplify the planning and budgeting process and better articulate it with the Bank’s strategic priorities

- Improve the balance between the 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 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.

- 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. 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 - Summary

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 with 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.

The IDEV evaluation is timely and provides Management with useful lessons. ... 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. ...

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.

Evaluation Team

The evaluation was managed by Madhusoodhanam Mampuzhasseril, Principal Evaluation Officer, with the support of Akua Arthur-Kissi, Evaluation Officer. Samer Hachem, Division Manager, IDEV2 provided guidance and oversight.

The IDEV team was supported by Ernst and Young, Tunisia led by Arnauld Bertrand and Christina Castella.
They said...

“Thursday, last week was a marathon day of discussions at CODE, with two meetings dedicated to the three commitments evaluations. These will probably rank among the most interesting CODE discussions we have had in a long time. They focused not only on key strategic considerations about the future of ADF, but also critical issues around the role of budget and HR in supporting the Bank to achieve its mandate and support development effectiveness.

This is indeed the kind of interactions we want evaluations to trigger. The three commitments evaluations have been unanimously commended as excellent pieces of work, both before and during the CODE meetings, with several EDs asking Management to ensure they get a longer life beyond the CODE discussion to really influence decision-making”.

Rakesh Nangia, Evaluator General, AfDB