

CARIBBEAN DEVELOPMENT BANK



SPECIAL DEVELOPMENT FUND (UNIFIED)

**STATUS REPORT ON THE IMPLEMENTATION
OF MEASURES TO STRENGTHEN THE BANK'S
INSTITUTIONAL CAPACITY: 2004 - 2007**

March 2008

1. INTRODUCTION

1.01 This report provides Contributors to the Special Development Fund (Unified) with a Status Report on the institutional reform measures being implemented by the Bank focusing on areas identified as critical to the improvement of the organisation's efficiency and effectiveness.

1.02 The process of institutional strengthening at the Caribbean Development Bank (CDB) has been designed to respond to the need to improve the overall effectiveness of the Bank as it seeks to achieve its existing mandate, and to continue the performance of its role as the leading catalyst for mobilising resources into its Borrowing Member Countries (BMCs). In order to improve its assistance to BMCs towards meeting their development objectives, CDB has committed itself to strengthening its own capacity to manage for development results.

1.03 Work on enhancing the operational efficiency and effectiveness started with the commissioning of an Operations Audit which involved an intensive review of the Bank's business processes. A Change Management Programme was established to speed up the implementation of the approved recommendations of the Operations Audit, and in particular, four priority areas for change, i.e. internal communication and information sharing; attitude and behavioral changes; internal capacity building; and outreach to BMCs and other development partners.

1.04 Among the initiatives being undertaken within these areas include:

- (a) re-aligning of the organisational structure, business processes and staff resources, as has been undertaken with the re-engineering of several work units including the Finance Division, Projects Department and the Human Resources and Administration Department;
- (b) becoming more client-focused through such initiatives as the ongoing implementation of changes in the structure and work processes of the Operations Area particularly with respect to the loan appraisals and disbursements;
- (c) internalising knowledge management to become a learning organisation;
- (d) promoting a shift in operating culture to create greater country-focus;
- (e) information technology (IT) to drive internal efficiency and redesigning the Information systems Architecture; and
- (f) making Technical Assistance (TA) processes and procedures more flexible.

1.05 To deliver on this commitment, the Bank continues to develop and implement mechanisms for managing results at the institutional level. In this regard, the focus has been on improving Country Strategy Papers (CSPs), improving the resource allocation process, strengthening the links between Results-Based Management (RBM) and the continuous improvement of staff performance, expanding the range of lending products, and building the capacity, systems and knowledge base required for measuring development effectiveness of the Bank's interventions. Importantly, the Bank treats institutional strengthening as not a one-off exercise, but as a continuous process of improving the ongoing operations of the Bank.

1.06 In addition, CDB has been placing increasing emphasis on improving the cost-effectiveness of its operations and the quality of its service. This is being achieved through the introduction of new information and communication technologies (ICTs), the re-engineering of key business processes and realising gains through staff reductions and redeployments. Further efficiencies are being gained through reformulation of the loan pricing mechanism in concert with the introduction of better credit risk portfolio management. These measures are being enhanced through the use of more innovative borrowing practices.

2. AREAS OF INSTITUTIONAL STRENGTHENING

2.01 To date, the preponderance of the Management's efforts at internal reform has been in HR, Administration, Projects, Finance and the Bank Secretary's Unit (BSU). The following paragraphs of the paper will highlight some of the accomplishments to date in these areas.

Human Resource Enhancements

2.02 Some of the Human Resource recommendations from the Operations Audit, which have been implemented, include reorganising the Human Resources Unit (HRU) into three focal areas of internal Bank service, namely Staffing (selection, recruitment, deployment, promotion); Compensation and Benefits; and Learning and Development.

2.03 The reorganisation of the HR function was further informed by a more detailed study of the Corporate Services area that called for a redesign of the business process for delivering HR services. This in turn has led to the introduction of an integrated human resource management system and the streamlining of some of the transactional aspects of HR through technology upgrades, thereby facilitating greater administrative control in the line and permitting the HR professionals to concentrate on playing a more strategic/advisory value-added role. To give greater effect to this principle, payroll functions were also transferred to the Finance Division as recommended by the Operations Audit.

2.04 In order to implement the recommendations in HR, an Advisor was recruited to provide technical support, especially in restructuring the function and in the introduction of new automated human resource management systems. The follow-up Corporate Services study also advocated the elevation of responsibility for the HR function to the Senior Management Group (SMG) level by the appointment of a Director to head the area. This recommendation has been implemented. Additional measures which are about to be finalised by Management are a Code of Conduct for staff, and a Professional Development Policy.

2.05 Both studies pointed to opportunities for greater efficiencies in the Bank's telephone communications system. In 2006, a new telephone system was introduced by the Administrative Services Unit. Already, CDB is enjoying a level of savings in its telephone communication costs that indicates that the investment will be recovered in less than two years.

Restructuring of Operating Units

2.06 In 2003, there was a restructuring of the Projects Department and the elimination of the Projects Review Unit. Based on an evaluation of the performance of this reorganisation, further adjustments to the structure of the Projects Department were implemented in January 2007. The following objectives were identified for the re-organisation within the context of the overarching goal of providing the best service to the Bank's clients:

- (a) development of a robust pipeline of projects;

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- (b) improvement in the efficiency and effectiveness of the project processing cycle; and
- (c) improvement in the quality of the appraisal and supervision functions.

The New Structure

2.07 Bearing in mind the objectives outlined above and the desirability of ensuring the required sector focus to facilitate the building of expertise, the new structure of the Projects Department consists of four Divisions i.e:

- (a) An Economic Infrastructure Division (EID) with responsibility for the preparation/appraisal and supervision of all economic infrastructure projects, including tourism sites. Disaster response will also be the responsibility of EID;
- (b) A Social Sector Division (SSD) with responsibility for the preparation/appraisal and supervision of projects in education and training, health, human settlements (including sites and services) and agriculture and rural development. SSD would also be responsible for the Basic Needs Trust Fund (BNTF);
- (c) A Private Sector Development Division with responsibility for the preparation/appraisal and supervision of financial intermediary lending, direct private sector projects in all sectors, Caribbean Technological Consultancy Services (CTCS) and business/investment climate work; and
- (d) A Project Services Division (PRSD) with responsibility for operationalising and overseeing the Bank's policies on social development, procurement, environment, disaster risk reduction and gender. PRSD will also be responsible for regional technical cooperation – including regional public goods, governance and institutional development and the training programme in project formulation and management. The claims processing unit will also be located in PRSD.

2.08 Each "sector" Division is responsible for relevant sector policy review and development. In view of the multi-disciplinary nature of project work, staff in any one Division will be expected to provide inputs into the work of other Divisions.

Business Process Re-Engineering to Improve Internal Efficiency

2.09 Both the Operations Audit and a detailed business process review of the Finance Division concluded that there was too much manual work and re-work in this area, largely because of insufficient integration of IT systems and the applications around which the Division was organised. In order to remove these operational inefficiencies, several interfaces were developed among the systems which obviated the need for manual intervention and strengthened the Bank's internal controls.

2.10 The Operations Audit also pointed to the need for the development of a "Master Data Architecture Model" to enable the introduction of a modern, user-friendly financial reporting system. A contract was awarded at the beginning of 2007 for the design of a Corporate Reporting Facility (CRF) for the Finance function which should be commissioned by the end of the first quarter of 2008.

2.11 CRF will automate the production of all the critical financial reports required by Management, the Board of Directors (BOD) and CDB's bondholders. It will also greatly simplify the preparation of many of the tables, which form part of the Annual Report of CDB and the Annual Report to Contributors

of the Special Development Fund (SDF). Information will now be available on a real-time basis and in a manner which will empower users to gain access to the most up-to-date financial information in CDB without the need to seek the assistance of staff in the Finance Division. This system will be rolled out to other areas of the Bank such as Projects and HRU in 2008, with similar benefits.

2.12 The other main conclusion of the process studies was that the flow of work in the Finance Division could be rendered more efficient if staff were empowered to take more responsibility for the quality of their work, thereby reducing the amount of checking required. In pursuit of these objectives, several business processes were redesigned and the number of check points reduced without compromising the Bank's internal controls.

2.13 One noteworthy change in this regard was the re-engineering of the process for managing the Bank's business travel. In this instance, the old system, which was based on travellers' cheques, was replaced by the issuance of corporate credit cards to travelling officers of the Bank. This change has dramatically reduced the amount of administrative work involved in managing this process and has led to reduction of non-personnel costs and the realisation of some savings.

2.14 During 2008, even greater efficiency will be achieved in this process when a new software system, which is part of the Bank's core suite of financial management software, is introduced. This new product will also allow for much greater analytical rigour to be brought to the management of staff travel because of the amount of useful new information which will be readily available.

2.15 The Treasury function in the Finance and Corporate Planning Department was also restructured in accordance with the recommendations of the Consultants.

2.16 In summary, the reform initiatives undertaken by CDB to date have helped the organisation to become more efficient, enhanced the productivity of the staff and contributed to containing the growth of administrative expenses. The various measures have resulted in the elimination of five staff positions. Furthermore, they have served to drive decision-making further down the chain of command and empowered more staff in the process.

2.17 The approved capital budget for 2008 provided for five (5) key systems which will be pivotal to the changing nature and quality of service delivery in CDB. These are:

- (a) a revamped, state-of-the-art CDB website;
- (b) a new Loans and Grants system;
- (c) a new Project Portfolio Management System (PPMS);
- (d) a Knowledge Management System; and
- (e) Sundry Accounting packages (Travel, Purchasing, Inventory, etc.).

2.18 The new CDB website will be launched in the third quarter of 2009 and will serve as the portal through which many services will be provided to the Bank's customers. Apart from being more user-friendly, it will enable the Bank's clients to access information on their own account, in their own time, without having to be in touch with CDB's staff in its Loans Unit. These staff will, therefore, be able to take on other responsibilities.

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2.19 Grants have become an increasingly important part of CDB's portfolio as Governance (provided mainly through TA grants) and Direct Poverty Reduction (in the main, through the rapidly growing portfolio of BNTF projects) have been mainstreamed in the Bank's operations. Therefore, a better system than the current spreadsheet software is needed for their management and for improved reporting to Contributors and other stakeholders. Similarly, with the growing portfolio of loans, the manual billing process urgently needs to be replaced with a system that utilises the power of the internet for the distribution of billing invoices. The limited flexibility of the current system also represents a major constraint when new products like Policy-based Loans and Guarantees are introduced as it was not designed to handle them. Work has started on the design and installation of the new loan and grant system and its commissioning is scheduled for provided for early in 2009. Its implementation will lead to a reduction in the number of staff required to execute this important activity both in the Finance Division and in other areas of the Bank.

2.20 PPMS is the automated system designed to manage the project cycle in CDB. As such, it is a critical part of the infrastructure for managing CDB's core activities. In its present design however, it is unstable and difficult to use. Its significant modification or replacement will boost productivity in the Projects Department and in areas such as the Evaluation and Oversight (EOV) Division which rely heavily on the information which it provides. The process for contracting a firm to undertake the redesign of the system has commenced and the project should be fully implemented by first quarter 2009.

2.21 The accounting systems described above are all part of the Bank's core Smartstream suite of accounting solutions and will reduce the current level of rework and integrate seamlessly with the General Ledger. In short, their commissioning will increase efficiency and contribute to the reduction in staff numbers in this function.

2.22 In summary, all the above systems will take operational efficiency to a different level, leading to better service to internal and external customers, whilst requiring less staff to carry out the work. The impact on staff productivity and administrative expenses will therefore be positive. It is estimated that the new accounting solutions alone will generate savings of approximately \$300,000 per annum, whilst realising an internal rate of return of almost 11%.

2.23 The review of business processes in Bank Secretary's Unit has led to similar value-adding changes. A web-based system for the distribution of papers to the BOD was introduced, thereby eliminating the need for time spent in packaging and mailing documents with corresponding savings in the use of stationery and postage/courier costs. The internet has also been used to make Board papers and other information relating to Board meetings more generally accessible to staff as part of the Bank's communication initiatives.

2.24 The logistics for the management of the Bank's Annual Meetings have benefited greatly from the redesign and upgrade of the Conference Management Registration System (CMRS) which provides a database of important information on participants attending the meetings. Unlike the previous arrangement, the new system can be readily updated and provides ready access to participants for online registration as well as relevant hotel information. At Board meetings, it is now used to accelerate the registration process.

2.25 A link has also been established between CMRS and the CDB web page for the Annual Meeting of the Board of Governors to provide pertinent data regarding the host country, visa requirements and hotel accommodation. This enables wider communication of Governors' speeches through immediate posting after each day's proceedings.

2.26 The reform process in CDB has, up to this point, relied mainly on redesigning existing business processes and restructuring the organisation of work and the use of ICTs in improving the efficiency of existing work processes. The proposed capital budget for 2007/08, however, signals the intention of CDB's Management to intensify its use of ICTs as a transformation tool to raise staff productivity, readjust the parameters for achieving an appropriate balance of technical knowledge and maturity in the overall staffing complement and transform the way in which the Bank delivers services to its internal and external customers.

2.27 This section of the paper highlights some of the main ICT solutions which the Bank intends to roll out over the next few years, with emphasis on their impact on service delivery, administrative expenditure and staff productivity. The discussion will also point to other initiatives such as outsourcing of current activities and the value-adding role which they will play in ushering in transformational change in this organisation.

The Role of Outsourcing

2.28 Outsourcing is a well recognised strategy for improving efficiency and competitiveness in an organisation. CDB has a tradition of outsourcing, using consultants on term contracts to provide specific professional skills on particular assignments for a finite period instead of hiring permanent staff. Similarly, work in administrative areas such as security, janitorial services, landscaping and facilities maintenance are outsourced where appropriate for greater cost-effectiveness. In the Treasury area, management of the micro-finance guarantee fund, the interest subsidy fund and the staff pension fund has also been outsourced to great financial advantage.

2.29 An examination of this strategy's potential to optimise performance on its investments (both internal and pension funds) and reduce staffing costs through the engagement of external fund managers has already been initiated. Apart from the increased income which the Bank's investigations indicate can accrue from this action, the staff in the Treasury area benefit from access to analytical resources whose acquisition, in the present mode of operation, it would be impossible to justify.

The Role of Benchmarking

2.30 In pursuing both change processes, internal reform in the present organisation and the transformational strategies outlined in the HR Strategy and the Capital Budget 2007/08, the Bank has sought to benchmark its actions with developments in the International Financial Institutions (IFIs) community. This process has been formalised through CDB's membership in the IFI Benchmarking Survey which is sponsored by the World Bank (WB) and supported technically by the American Productivity and Quality Center.

2.31 Currently, the survey's focus is in the areas of HR, Finance and IT. Measurement protocols and data points for each functional area were established and baseline surveys implemented in 2005. The resulting comparative data and group dialogues have been used to inform the development of the strategies for the future transformation of the Bank's operations outlined in this paper. The Bank expects to derive increasing value from this effort as the survey is replicated and expanded in the near term.

Enhancing Workforce Capabilities

2.32 CDB has completed the first phase in the process of adjusting the composition of its workforce to its strategic context. The Bank has refined and updated job definitions within its structure in terms of purpose, specific accountabilities and required competencies through an 18-month job review process that

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called for inputs from staff and managers, validation at higher levels and normalisation of perspectives across the organisation.

2.33 While further refinement remains to be done on technical and on-the-job skill requirements, the expanded information base has enabled a closer specification of workforce composition in the current environment and creation of future scenarios for analysis. It also takes account of recent changes in job requirements flowing from the reorganisation efforts in a number of Units that together comprise two-thirds of the staff population. These include: Finance, Projects, IT, HR, Administration and BSU.

2.34 Based on preliminary observations of gaps between incumbent ability and job requirements, learning and development options are being implemented to address the immediate needs of existing staff, including language training to accommodate the requirement of expanded membership. After an assessment of existing skills has been completed, any gaps identified will be filled through upgrade of existing staff or recruitment and/or outsourcing. For new recruits who are engaged to fill the skills gap in the desired workforce, induction programmes with a significant on-the-job training component are being used to bring them to full productivity as soon as possible.

2.35 CDB's Charter requires that subject to the paramount importance of securing the highest standards of efficiency and technical competence, due regard must be given to the recruitment of personnel from its member countries on as equitable a geographic basis as possible. Consistent with this, the second phase of workforce adjustment has commenced with identifying and addressing imbalances in the existing population. These relate in particular to diversity issues (age, gender, nationality, geography) and the ratio between managerial/professional staff and support staff. Department heads and senior managers are expected to ensure that the Bank functions as an equal opportunity employer to applicants from BMCs and non-BMCs and to establish the appropriate balance between experienced and younger professionals.

2.36 The Bank took a systematic approach in developing its current programme of organisational change *via* operational audits, process studies and staff consultations and, as noted earlier, has achieved considerable success in implementing process and structural changes within the existing environment. As the CMP progress reviews have indicated, there has been less headway with respect to attitudinal and behavioural changes suggesting that in re-visiting this process, a more fundamental re-shaping of the business culture is necessary.

Long-term Planning and Priorities Setting

2.37 The Annual Review of the implementation of the current Strategic Plan 2005-2009 and of the priorities and expected outcomes suggests that although the current Plan remains largely relevant, there are many new factors which are now emerging as driving forces of change in the world and the region, and which need to be more fully assessed within the context of the Bank's planning for its work over the longer term. It is therefore proposed to begin even at this early stage, the process of developing the Bank's new Strategic Plan to allow for the identification and fullest consideration of all pertinent factors and for the broadest possible consultation with stakeholders.

2.38 The current and past Strategic Plans of the Bank have been based on a five-year planning horizon. However, Management is committed to adopting a longer-term perspective than previously employed to take into account the current trend among BMCs of developing very long-term development programmes, with the stated objective of acquiring developed country status by the end of 20- to 25-year planning periods. The Bank's own planning programme is expected to cover a period of at least 10 to 15 years and be set against the background of:

- (a) the long-term development visioning exercises being undertaken by various BMCs;
- (b) the emerging global environment including the prospects for investment inflows and global development assistance;
- (c) the long-term development challenges and risks facing BMCs including issues of climate change and global warming, and clean and alternative energy sources; and
- (d) the future role of CDB as a pan-Caribbean, sub-regional development bank, supporting the economic integration movement (CARICOM Single Market and Economy), and providing relevant policy advice, financial services and financial assistance programmes on competitive terms to individual BMCs.

2.39 The process is expected to involve the use of expert personnel from outside of the Bank as facilitators and presenters on selected issues and arrangements will be made to allow for the participation in this process of as wide a cross section of CDB's stakeholders as possible. Two planning retreats have already been held at which managerial and professional staff engaged in an environmental scan of the international and regional landscape over the next 15 years. The development of the new longer-term Strategic Plan will provide further opportunities to enrich the Bank's approach to RBM and to develop a seamless results architecture as well as to enhance its development effectiveness.

Adopting Results-Based Approaches to Work Programming and Budgeting

2.40 In 2003, the Bank introduced a results-based approach to planning, managing, monitoring and reporting on the work of the organisation. The RBM approach was also linked to the Bank's individual employee appraisal system [known as Continuous Performance Improvement (CPI)] to produce a seamless system for managing its performance. The system also responds to the call of the international community for Multilateral Development Banks (MDBs) to demonstrate by way of indicators the results of their programmes and projects in BMCs.

2.41 The Bank's RBM approach utilised a cascade of prioritised and achievement-based goals with corresponding performance indicators. Each of the Bank's strategic objectives is linked to a set of corporate priorities or intermediate objectives that are in turn reflected in the Bank's work programme through expected outcomes and outputs at the work unit level. This four-tier structure is intended to direct the work of each organisational unit toward a set of consistent objectives, in terms of both results and timeframe. Furthermore, the CPI objectives and standards for all employees are individually linked to the expected outcomes/outputs of their respective work unit.

2.42 During the 2007 Work Programme and Budget exercise, a multi-year planning framework was adopted to align the planning and development of work programmes more closely with the Bank's multi-year budget process which was initiated in Financial Year 2005. This initiative now entails the development by work units of work programmes for a two-year period instead of the former one-year programme document and allows for better planning, monitoring and managing of the linkages between the work units' expected outcomes and the planned outputs and activities for achieving them.

Country Programming

2.43 A strengthened country strategy process is the principal means of targeting and focusing all of the Bank's country programme interventions. It is the 'flagship' for CDB country lending, TA and policy dialogue. The redesign of the CSP process and an accelerated timetable for undertaking CSP preparation in close consultation with BMCs has strengthened the move to a strategic and programme orientation and

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an increased alignment with each country's strategic priorities. The CSP process is conducted with increased country-level participation and with the collaboration of other donor partners.

Increasing the focus on Evaluation, Oversight and Feedback

2.44 Since 2003, increasing priority has been given to the Bank's monitoring and evaluation function. The emphasis has shifted for the post-implementation project evaluations to sector, thematic and programme evaluations. This required a results-based approach and a shift in organisational culture which goes beyond a focus on input delivery and output quality to a focus on the achievement of outcomes. To build capacity within the Bank and facilitate the harmonisation process, training workshops on Managing for Results using the Logical Framework and Results-based Country Strategies have been held in collaboration with WB, Inter-American Development Bank and the Asian Development Bank. In addition, the Bank's involvement in harmonisation initiatives in the areas of procurement, environment, HR and planning and budgeting provides further opportunities to build capacity and to benefit from the experience of other peer institutions.

2.45 The higher level evaluations offer real value to the Bank in terms of assessing its relevance and contribution to the development of the Region as well as reliably informing CDB's policies and strategies. During the period 2003 to 2008, the following sector, thematic and programme evaluations were and will be undertaken:

- (a) Assessment of the Student Loan Scheme - 2005;
- (b) CDB's TA Programme 2000 – 2004-2007;
- (c) Review of the Environmental Guidelines - 2006;
- (d) SDF (U) 4 and V Multicycle Evaluation – 2008;
- (e) CTCS Evaluation - 2008;
- (f) CDB's Natural Disaster Risk Management Programme - 2008;
- (g) Review of the Disaster Mitigation Facility for the Caribbean - 2005;
- (h) Education Sector - 2008; and
- (i) Change Management Programme – 2004.

2.46 The Oversight function adds value in terms of providing guidance to Management in improving the operational efficiency, relevance and effectiveness of the Bank's operations. An operational review of the Projects Department was conducted in 2006 and of the Economics Department in 2007. The results of these exercises are being used to further enhance the efficiency and effectiveness of these Departments.

Improving Efforts at Quality Assurance

2.47 The Bank implemented PPMS which enables all information on projects throughout the life-cycle to be organised in one place. The intention is that key documents for a project are stored in a way that enables one to search and, where desirable, to combine information from various stages of the project life cycle for analysis. EOV is charged with the responsibility of verifying and validating this data for accuracy and consistency and using the information contained therein to assess the quality of the

management and performance of loan portfolio using the harmonised evaluation criteria adopted by the Evaluation Cooperation Group of the major MDBs.

2.48 The Annual Review of the Portfolio Performance is a key document produced by the Division and used by BMCs, Management and staff of the Bank to benchmark the performance of projects as well as improve the monitoring and supervision performance. This report has been produced annually since 2000.

Benchmarking for Enhancing Quality

2.49 In pursuing both change processes, internal reform in the present organisation and the transformational strategies outlined in the HR Strategy and the Capital Budget 2007/08, the Bank has sought to benchmark its actions with developments in the IFI community. This process has been formalised through CDB's membership in the IFI Benchmarking Survey which is sponsored by WB and supported technically by the American Productivity and Quality Center.

2.50 Currently, the survey's focus is in the areas of HR, Finance and IT. Measurement protocols and data points for each functional area were established and baseline surveys implemented in 2005. The resulting comparative data and group dialogues have been used to inform the development of the strategies for the future transformation of the Bank's operations outlined in this paper. The Bank expects to derive increasing value from this effort as the survey is replicated and expanded in the near term.

Monitoring of Implementation of Institutional Strengthening

2.51 The Bank is committed to the full implementation of all approved measures for strengthening institutional efficiency. Progress on implementation of these measures is closely monitored by SMG and Departmental Directors across the Bank through a system of periodic reviews to ensure compliance with approved budget and timetable. The system also provides for feedback from all stakeholders on the progress of implementation and the impact of the new measures.