

# AFRICAN DEVELOPMENT FUND



## ADF-14 Report

**Transforming the Lives  
of Africa's Most Vulnerable People**

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Fourteenth Replenishment of the African Development Fund

## Executive Summary

Consultations for the Fourteenth General Replenishment of the African Development Fund have taken place against a backdrop of momentous global agreements. In 2015, world leaders adopted the Sustainable Development Goals at the UN Special Summit for Sustainable Development to eliminate global poverty by 2030, made financial commitments to underpin these goals at the Third International Conference on Financing for Development, and agreed measures to limit climate change at the 21st Conference of the Parties to the UN Framework Convention on Climate Change held in Paris. For Africa's least developed countries, achieving these goals requires considerable increases in financial resources from both the public and private sector. Concessional finance will be critical especially for the poorest, most fragile or conflict-torn countries and must be used to unlock, leverage and catalyse significantly more public and private flows.

Participants were clear that Africa's least developed countries need improved institutional and policy environments to attract more private investment, mobilise their domestic resources and avoid debt distress. While ADF countries have achieved relatively robust economic growth over the last decade, the economic outlook is now more mixed. They face uncertainties in global demand, commodity prices and idiosyncratic shocks due to droughts, floods, conflict and geopolitical tensions. They also face medium term structural challenges including fast growing populations, high youth unemployment, accelerating urbanisation and increasing environmental degradation, which is exacerbated by climate change. In this context, ADF countries require broad, coherent policy objectives and action on several fronts in order to maintain momentum and achieve sustainable and inclusive growth. Promoting macroeconomic stability is also key, particularly for those countries hardest hit by commodity price falls.

**ADF's value proposition:** The ADF is the single largest source of concessional, long-term and country based financing devoted to Africa's most vulnerable countries, and has developed considerable experience of working in fragile situations. The Fund works closely with other development partners, building more inclusive and sustainable economies and promoting opportunity for all. By providing predictable financing and policy advice, the Fund helps countries deliver essential public investments and services alongside targeted social safety nets to protect the most vulnerable people and communities. The Fund also provides an array of financial terms and instruments to crowd-in more public and private finance to ADF countries.

Participants agreed that the Fund is well positioned to support ADF countries achieve the global goals. They committed to raise an important part of the required flows through direct financing, leveraging the ADF's capital and catalysing other resources. They agreed ADF-14 should attract more concessional financing for low income, fragile and conflict-affected countries and combine its knowledge and experience with recipient countries, providing technical assistance tailored to local conditions. ADF-14 should build safety nets and strengthen resilience, whilst implementing measures to promote climate change adaptation and mitigation and support disaster risk management. ADF-14 should also strengthen domestic financial markets and deepen financial inclusion. In all its work, ADF-14 should promote the highest social, environmental and governance standards and strengthen its collaboration with other external partners, promoting alignment with ADF countries' priorities, systems and procedures in line with the Paris Declaration on Aid Effectiveness.

**Responses to ADF-13:** The evaluation of ADF-12 and ADF-13 by the AfDB Group's Independent Development Evaluation Department found that the Bank Group is delivering on commitments, producing important knowledge products, tools and structures, and has launched innovative initiatives. Participants welcomed the recommendations, which include making ADF-14 commitments strategic and streamlined, ensuring closer partnerships between Deputies, Board and Management, and emphasising the implementation of policies and strategies as well as one-off deliverables.

Participants noted that ADF-13 delivered on almost all commitments and that the move by the Bank Group from Tunis to Abidjan had been well managed. However, the ADF-13 disbursement rate was lower than had been projected, and the uptake of innovative financial instruments had initially been slower than expected, although was now satisfactory.

Drawing on the experience of ADF-13, Participants highlighted the importance of giving increased attention to debt sustainability, domestic resource mobilisation, natural resources taxation, public financial management, illicit financial flows and money laundering. Participants emphasised that the Fund should give high priority to climate finance. They welcomed the renewed emphasis on improving the gender balance, particularly at management level. They also welcomed the focus on improving cost efficiency, whilst noting the higher cost of living in Abidjan compared to Tunis.

**ADF-14 priorities to promote global goals:** A strong ADF-14 replenishment will achieve the objectives of the Bank Group's Strategy (2013-2022), namely to support ADF countries in achieving inclusive growth and in transitioning to green growth. The replenishment will enable the Bank to accelerate progress in ADF countries towards achieving the ambitious global goals, through proactively scaling up the delivery of the Bank Group's five priority areas or 'High 5s', which are: i) light up and power Africa; ii) feed Africa; iii) industrialize Africa; iv) integrate Africa; and v) improve the quality of life for Africans, and by addressing the four key crossing-cutting themes of the Bank Group's Strategy of fragility, governance, climate change and gender.

**ADF-14 pipeline:** A pipeline of 178 operations, estimated at UA 7.3 billion, has been prepared for ADF-14 (2017-2019). These projects respond directly to ADF countries' needs and are in line with the Fund's comparative advantage. The pipeline will deliver the Bank's 'High 5' priorities and focus on the cross-cutting themes. Net replenishment resources will not finance the full UA 7.3 billion based on the replenishment scenario under consideration, leaving a gap of approximately UA 3.1 billion worth of projects, part of it being financed through other Bank's financing instruments (e.g. AfDB sovereign public financing, the NTF, trusts funds, etc.). Before launching a prioritization exercise within its pipeline of projects, the ADF will seek to identify other sources of financing with the view to make the largest number of projects as possible be financed, even with a limited support coming from ADF resources.

The replenishment enables the Fund to deliver the pipeline and crowd-in substantial finance to help meet the huge financing needs of ADF countries, so that they can achieve the ambitious global goals. The replenishment will also contribute to meet the financial commitments made by world leaders at the 2015 Addis Ababa Conference on Financing for Development.

**Private sector investment:** Participants noted the crucial role of ADF-14 in mobilising private sector investment in ADF countries, including those in fragile situations. Delivering the High 5's priorities requires scaling up partnerships with the private sector and addressing market failures. Over the past decade, the Bank Group has made substantial efforts to promote private sector development in ADF countries, primarily by providing technical assistance and programmes to foster investment climate policy improvements. More recently, the Fund has used innovative financial instruments such as guarantees to promote non-sovereign operations and attract additional financial resources. Given investors' risk perception and the high cost of funding, Participants expressed their support for the Private Sector Credit Enhancement Facility (PSF) and agreed that the Facility should benefit from additional resources from the ADF during the next cycle

**Development effectiveness and managing for results:** Participants reviewed the new draft of the Bank Group's Results Measurement Framework (RMF), which provides the frame, management tools and incentives to promote a performance-orientated culture to increase the entire Bank Group's developmental impact. The new RMF is structured around the 'High 5s' and will assess development impact, leverage on private sector development impact and strengthened focus on gender equality. Dedicated data for performance and accountability for development results in ADF countries will be produced and ADB and Fund operations will be differentiated in the Annual Development Effectiveness Reports.

The new Development and Business Delivery Model and Updated Decentralisation Plan will leverage the Bank's unique role as trusted partner on the continent and deepen achievements and development results, while ensuring that regional and country services are delivered in a cost-effective and efficient manner. Stronger capability at the regional level with smaller country offices in ADF countries, particularly those in fragile situations, will strengthen the Fund's capacity to deliver better outcomes while also delivering more value-for-money to Fund donors. In parallel, HQ will focus less on day-to-day operations and increasingly on the areas of oversight, policy, guidelines, harmonisation, quality control and maintenance of the Bank's brand globally. Under the new delivery model, measures are being put in place to strengthen performance culture across the organisation and bolster business processes, in order that the Bank becomes more cost efficient, effective and responsive.

**Financing Terms and Replenishment Framework:** Participants agreed on the financing terms for ADF-14, including the introduction concessional donor loans and bridge loans as a way for development partners to increase their contributions to the ADF14 replenishment. The introduction of this loan element into the ADF is a break from the norm of the past 13 rounds going back to the 1970s, when the Fund was subsidized via grants.

Meanwhile, Participants agreed that Fund resources will continue to be allocated to eligible countries with eligibility criteria, country grouping and differentiated lending terms the same as for ADF-13. The Performance-Based Allocations (PBA) system will continue under ADF-14, such that a carefully calibrated balance between country performance and needs continues to drive the ADF resource allocation system. The share of grants in individual PBAs will continue to be determined based on annual Debt Sustainability Analyses by the International

Monetary Fund. The PBA system will maintain the Modified Volume Approach (MVA), under which a 20% discount is applied to each PBA grant allocation, although this discount will now comprise a 6.67% incentive-related portion and a 13.33% charge-related portion.

Resources to compensate the Fund for the Multilateral Debt Relief Initiative will continue to be reallocated to all ADF-only countries through the netting-out mechanism. The Country Policy and Institutional Assessment (CPIA) will become biennial rather than annual, to better reflect the change in policy and institutional environment and to increase transactional efficiency; where specific country circumstances require it, more frequent assessments will be made. Deputies also endorsed Management's proposals for allocations for regional operations, the Transition Support Facility and Private Sector Credit Enhancement Facility.

**Advance Commitment Capacity:** Deputies agreed with the assumptions underlying the Advanced Commitment Capacity (ACC) for ADF-14 and endorsed Management's proposal of:

- a basic ACC level of UA 238.2 million (excluding concessional loans). The key ACC assumptions are (i) a grant level of 37.10 % with an upfront charge of 13.33% to compensate foregone income flows; (ii) MDRI compensation ratio of 98% (including 10% with a 1-year delay); (iii) ADB net income transfers of UA 35 million per year; and (iv) resources coming from loan cancellations of UA 30 million per year.
- An incremental ACC of UA 505.6 million that will be available for commitment upon availability the instruments of subscription for the Donor's concessional loans (i.e. UA 180.1 million CDLs and UA 510.7 million BLs).

**Replenishment size:** Deputies agreed on a resource level of UA 4,224.05 million for the ADF-14 replenishment period (2017-2019).

**Implementation:** The commitments undertaken by Management in this report are summarised in the Matrix of Management Commitments and Monitorable Actions for ADF-14 at Annex I.

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## Acronyms

ACC	Advance Commitment Capacity
ACCF	Africa Climate Change Fund
ADB	African Development Bank
ADER	Annual Development Effectiveness Review
ADF	African Development Fund
ADOA	Additionality and Development Outcomes Assessment
AFAWA	Affirmative Finance Action for Women
ATA	Agricultural Transformation Agenda of the Bank Group
BL	Bridge Loan
CAADP	Comprehensive Africa Agriculture Development Program
CAR	Central Africa Republic
CDL	Concessional Donor Loan
COP	Conference of the Parties
COP21	21st Conference of the Parties to the UN Framework Convention on Climate Change
CoST	Construction Sector Transparency Initiative
CEMAC	Economic Community of Central African States
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
DAM	Delegation of Authority Matrix
DAPEC	Delivery Accountability and Process Efficiency Committee
DBDM	Development and Business Delivery Model
DGs	Director Generals
DST	Delivery Support Team
ECON	Chief Economists' Vice Presidency
EITI	Extractive Industries Transparency Initiative
FATF	Financial Action Task Force
FPA	UN Fiduciary Principles Agreement
GDP	Gross Domestic Product
GGGI	Global Green Growth Institute
GMS	Gender Marker System
GW	Giga Watts
High 5s	The Five Operational Priorities of the Ten Year Strategy
HQ	Headquarters
IDEV	Independent Development Evaluation Department of the Bank Group
IGGP	Inclusive Green Growth Partnership
INDCs	Intended Nationally Determined Contributions
IT	Information Technologies
JfYA	Jobs for Youth in Africa
KPI	Knowledge Performance Indicator
MAPS	Methodology for Assessing Procurement Systems
MCC	Millennium Challenge Corporation
MDB	Multilateral Development Bank
MDRI	Multilateral Debt Relief Initiative
MIC	Middle Income Countries
MSMEs	Micro, Small and Medium enterprises
MTR	Mid-Term Review
MW	Mega Watts
NTF	Nigeria Trust Fund
OECD	Organization for Economic Co-operation and Development
ODA	Overseas Development Assistance
OPIC	Overseas Private Investment Corporation
OPM	Operations Procurement Manual
PBA	Performance-Based Allocation
PIDA	Program for Infrastructure Development in Africa

PCG	Partial Credit Guarantee
PRG	Partial Risk Guarantee
PSF	Private Sector Credit Enhancement Facility/Private Sector Facility
RDID	Regional Development, Integration and Business Delivery Complex
RECs	Regional Economic Communities
RIS	Regional Integration Strategy
RMC	Regional Member Country
RMF	Result Measurement Framework
RPG	Regional Public Good
RWSSI	Rural Water Supply and Sanitation Initiative
SEFA	Sustainable Energy Fund for Africa
SEI	Staff Engagement Index
SDGs	Sustainable Development Goals
TSF	Transition Support Facility
TYS	Ten Year Strategy
UA	Unit of Account
UNECA	United Nations Economic Commission for Africa
UNDSS	United Nations Department of Safety and Security
USAID	United States Agency for International Development
VfM	Value for Money

## ***FOURTEENTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND (ADF-14)***

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### **1. Introduction**

- 1.1. State Participants in the African Development Fund (hereafter referred to as “the ADF” or “the Fund”) and representatives of beneficiary countries (hereafter jointly referred to as Participants) held consultations during the course of 2016 on the Fourteenth Replenishment of the General Resources of the Fund (ADF-14).<sup>1</sup> Participants reviewed the progress of the Fund over recent years and considered the key findings of the independent evaluation of the Fund under its 12<sup>th</sup> and 13<sup>th</sup> replenishment cycles. They considered and discussed the strategic orientation of the Fund under ADF-14 (lighting up and powering Africa, feeding Africa, industrializing Africa, integrating Africa, and improving the quality of life for the people of Africa) as well as four critical cross-cutting areas (fragility, governance, climate change and gender). Participants provided guidance on that overall strategic orientation, as well as on related policy objectives and operational priorities for Fund operations. They also discussed the proposed innovative financing products as well as the financial scenarios and the resource allocation framework.
- 1.2. Consultations for ADF-14 took place at a momentous time in the global development landscape, with high development ambitions agreed in 2015 to meet the dual challenges of overcoming poverty and protecting the planet. At the UN Special Summit for Sustainable Development in September 2015, world leaders adopted the comprehensive Sustainable Development Goals (SDGs) to eliminate extreme poverty from the world by 2030. The SDGs are underpinned by commitments made at the Third International Conference on Financing for Development in Addis Ababa in July 2015 (the Addis Conference), and, together, these global agreements constitute the 2030 Agenda. The international community met again in Paris in December 2015 and agreed on an effective and appropriate international response to tackle climate under the auspices of the 21<sup>st</sup> Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change.
- 1.3. For Africa, Agenda 2030 and the Paris climate change agreement are consistent with the African Union’s own 2063 Strategy adopted in 2014. The AU’s overarching aim is to transform and industrialise Africa, and is in harmony with the global emphases, especially on the climate change, environment, employment, infrastructure, gender equity, and fiscal frameworks and public financial management systems and inequality. This sends a clear message to policy-makers and development practitioners working on the development agenda across the continent.
- 1.4. To deliver the ambitious 2030 Agenda, Multilateral Development Banks (MDBs) must scale up their activities significantly. In particular, MDBs will contribute to leveraging and crowding-in substantial levels of financial resources, moving overall financing from all sources from ‘billions to trillions’ as articulated at the Addis Conference. Moreover, these increased demands on development finance will require all parties to optimise the use of limited concessional resources.
- 1.5. Achieving the SDGs in Africa’s least developed countries will need substantially greater resource flows as well technical and special assistance to tackle the vicious circle of poverty and fragility. The paradigm shift calls for a wide-ranging financing framework capable of channelling resources and investments from all sources, namely public and private, national and global. There is no substitute for concessional resources at this time, especially for the poorest, most fragile or conflict-torn ADF countries. But marshalling other types of financing at the levels needed will demand the well-targeted and effective use of concessional finance to unlock, leverage, and catalyse more public and private flows. Financing from private sources, including capital markets, institutional investors and businesses, will become particularly important. At the same time, ADF countries need to improve their institutional and policy environments to attract more private investment and financing and mobilize more domestic resources and avoid debt distress, while pursuing truly sustainable and inclusive growth, so that prosperity translates into poverty reduction and social progress.

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<sup>1</sup> Three meetings on the ADF-14 replenishment have been held in 2016 under the chairmanship of Mr. Richard Manning, former Director General UK Department for International Development and chair of the OECD’s Development Assistance Committee. The first two meetings were in Abidjan, Côte d’Ivoire on 17-18 March and 30 June - 01 July and the third meeting was in Luxembourg on 28-29 November. See Annex VII for a list of working documents prepared for these meetings.



- 1.6. The African Development Bank Group (hereafter, “the AfDB” or “Bank Group”) fully endorsed this comprehensive approach to resource mobilisation and strengthening technical assistance for critical policy and institutional reforms, as it scales up its activities to meet Agenda 2030. The ADF of the Bank Group is a leading source of policy advice and financing for Africa’s least developed countries and will play a central role in helping ADF countries achieve the SDGs and address climate change, by scaling up its work across Africa’s poorest nations. The Bank Group is already stepping up the pace to implement its Ten Year Bank Strategy, by focusing its financial and human resources on five core priorities with the critical cross cutting themes, as agreed by Governors of the Bank. These five priorities, which have been termed the High 5s (Light up and power Africa, Feed Africa, Industrialize Africa, Integrate Africa, and Improve the quality of life for the people of Africa). The cross-cutting themes are fragility, governance, climate change and gender. This clarity of focus, combined with the internal reforms in the Bank to ensure greater efficiency and effectiveness in delivery, is considered crucial for the Bank to support the acceleration of Africa’s economic transformation and the achievement of the global goals.
- 1.7. This report represents the outcome of Participants’ consultations on how ADF-14 replenishment will enable the Bank Group to help ADF countries achieve the ambitious global sustainability commitments of Agenda 2030, namely through effective and efficient delivery of the Bank Strategy, High 5 priorities and cross-cutting priorities in ADF countries. It summarises the directives and guidance that Participants have provided for the ADF-14 replenishment period (2017-19).

The report will serve as the basis for updating the Fund’s policy guidelines for ADF-supported operations during the ADF-14 period (2017-2019). Management will submit for the approval of the ADF Board of Directors revised policy guidelines together with a policy implementation matrix to guide the operations of the Fund under ADF-14.

## **2. Maintaining momentum for Africa’s development**

- 2.1. Despite the wide geographic, institutional and historical variations of each of the various ADF-eligible countries, they have collectively enjoyed relatively robust economic growth over the last decade. The key drivers of growth have been improved macroeconomic management, an export-led commodity boom coupled with strong domestic demand, positive structural change and increased external financial flows, particularly foreign direct investment and remittances. Furthermore, the majority of these countries have also benefitted from reduced conflict, expanded political liberalisation and substantial improvements in governance as well as business environment.
- 2.2. However, maintaining momentum for growth in ADF countries over the medium-term will be challenging. This is especially the case given the projected slowdown in growth reflecting an adverse external environment, weak investor confidence and an unclear policy response in many countries. Moreover, almost all of these countries continue to face other, long-term structural challenges that mean they will remain location of some of the world’s deepest poverty for the foreseeable future.

### *Medium-term economic prospects for ADF countries in uncertain economic times*

- 2.3. During the ADF-14 period, economic growth in ADF economies is projected to be mostly subdued average rates compared to the peaks of the previous decade. Projected growth for ADF countries (excluding Nigeria) is projected at 5.4% in 2017 up from 4.5% in 2016. With the inclusion of Nigeria, the analogous projections stand at 1.9% and 3.9% in 2016 and 2017, respectively.<sup>2</sup>
- 2.4. However, growth prospects contrast significantly between resource-rich and non-resource rich ADF-eligible countries. Whereas the former are under severe economic strains, the latter countries continue to perform well, as they benefit from lower oil prices, an improved business environment, and continued strong infrastructure investment. Management projects that overall growth in the resource-rich ADF-eligible countries will significantly decelerate to negative 0.2% in 2016 and 1.3% in 2017 compared to 2.1% and 2.6% in 2016 and 2017, respectively for the non-resource rich ADF countries.

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<sup>2</sup> These projections are consistent with those of other organizations. For example, IMF projects that ADF eligible countries (excluding Nigeria) will be 5.1% in 2017 up from 4.3% for 2016. Likewise, the IMF is projecting that with the inclusion of Nigeria, growth prospects of other ADF-eligible countries will be dragged down to 1.4% and 2.9% in 2016 and 2017, respectively. See, IMF, October 2016. “Regional Outlook, Sub-Saharan Africa: Multispeed Growth.” World Economic and Financial Surveys.

- 2.5. While these estimates show underlying resilience of the economies in the face of global and regional shocks, Participants noted a number of key uncertainties ahead that could affect medium-term economic prospects.
- 2.6. A significant uncertainty for ADF countries is an adverse external environment, which leads to commodity exporters adjusting to lower revenues, spill-overs from persistently weak demand in advanced economies and lower investment from both advanced and emerging markets. Indeed, global commodity prices are expected to remain lower during 2017-18 than during the 2010-14 period, offering mixed perspectives for ADF countries. Cheaper oil and food prices will help contain inflationary pressures and reduce import costs creating benefits for certain countries, while net oil exporters and others heavily dependent on commodity exports will have continued public finances and balance of payments challenges that may compel them to seek external financial support.
- 2.7. Other risk factors that could affect ADF medium term economic prospects, as well as having profound effects on communities, are idiosyncratic shocks. These include shocks such as droughts and floods, domestic civil and armed strife, political discord, sporadic terrorist incidents and geopolitical tensions in several countries.
- 2.8. The challenges Africa is facing in achieving the SDGs are even more considerable in ADF countries. The SDGs provide a clear global mandate to address poverty and promote more inclusive and sustainable growth. These are central to AfDB Group's development mandate. Reaching these goals require the kind of structural transformation that the Bank aims to deliver through the High-5s. It requires investments in human and physical capital as well as unleashing the private sectors potential to create economic opportunities, promote jobs and nurture growth.
- 2.9. Participants noted that whereas domestic resource mobilisation has improved in recent years in some ADF countries, the level falls short of what is commonly considered a minimum threshold to underpin growth of GDP of 5% or above. This situation is not expected to change much over the ADF-14 period. To bridge the gap, and meet their growing investment and infrastructure needs, a number of countries have sought recourse to international capital markets. Although this financing avenue is expected to be tougher in the medium term, the trend could be perpetuated in some resource-rich ADF economies where the decline in export earnings is translating in a contraction of fiscal revenues. In the Economic Community of Central African States (CEMAC) countries, for instance, fiscal revenue contracted to 21.7% of GDP in 2015 from levels of 26.7% in 2013 and 24.8% in 2014.
- 2.10. Debt patterns of ADF countries and their consequences on macroeconomic conditions also create uncertainties for growth forecasts. Whereas debt-funded infrastructure investment in ADF countries will help remove some major constraints on long-term growth, its benefits may not fully materialise in the absence of good governance and business environments. Most ADF countries started from relatively low levels of debt after the restructuring and debt relief in the 2000s and their average debt to GDP ratio has remained low and stable, although there has been considerable variation between countries and over time for each country. In the medium-term, their debt patterns remain unpredictable and could be very significant.
- 2.11. Debt servicing costs have risen in many ADF countries in recent years and are projected to continue doing so through 2017. The high share of concessional debt means that interest costs are not excessive for most ADF countries, but the increase in the volume of non-concessional debt makes fiscal consolidation more challenging. Non-concessional financing accessed by ADF countries from international capital markets signals both increased demand for financing projects in strategic sectors, even at a very high cost, and underlying structural weaknesses to buffer shocks. Whereas most analysis indicates that the level of current external debt is sustainable, there are emerging concerns over the ability of certain countries to take on more debt, especially given the tightening global financing conditions.
- 2.12. Two key drivers of debt are the commodities slump that has led to a sharp decline in fiscal revenues among exporters, and continuing reliance by some ADF governments on infrastructure investment to drive GDP growth. Moreover, currency depreciations and drops in nominal GDP due to lower commodity prices have also increased debt ratios in several instances, such as in Mozambique, where the metical has fallen sharply. Indeed, Mozambique shows the largest increase in debt/GDP at a 60% increase over 2012-2017, while

Nigeria had the smallest at 3.7% increase over the same period. Rising debt could also continue exerting pressure on median general government interest expenditure as a proportion of revenues.

- 2.13. Lastly, participants also noted slow productivity growth as another key challenge for ADF countries in the medium-term. Whereas lower levels of investment are important for explanatory variables for most of these countries' growth dynamics, it is the slower productivity growth that more sharply distinguishes their growth performance from that of other parts of the world. Investment in Africa's least developed countries yields significantly less in growth terms than in other developing regions — a situation that clearly necessitates raising productivity of existing and new investment. In this regard, Participants highlighted the need to reduce transactions costs for private enterprise, particularly indirect costs; supporting innovation to take advantage of new technological opportunities; and improving skills and institutional capacity to support productivity growth and competitiveness. For the most part, ADF countries and their populations are still highly dependent on agriculture for food, exports, and income earning more broadly. Productivity in this sector lags far behind the impressive progress made in Asia and Latin America, and should be a key target for raising overall productivity of ADF countries.

#### *Other, longer-term development challenges for ADF countries*

- 2.14. In addition to medium-term macroeconomic factors, Participants recognized the importance of other, long-term structural challenges for sustainable development in ADF countries, including demographic trends, climate change fast-moving urbanisation, and pockets of instability across the continent as major challenges. These pressures hurt efforts to reduce poverty, ensure food security, preserve the environment, and improve education, employment, and health.
- 2.15. Participants noted that ADF countries currently have some of the world's fastest growing populations. The result is that most of these countries today have very young age structures in which up to 60 percent of the population is below the age of thirty. Participants noted that countries with age structures with such 'youth bulges' and accompanied by high youth unemployment are more likely to experience outbreaks of conflict than those with a broader population distribution across different age ranges. And when such demography-linked insecurity combines with governance challenges, and other socioeconomic conditions, state security is at stake.
- 2.16. Participants also discussed the fast urbanising populations in most ADF countries, and agreed that it is currently unclear whether the demographic shift to urban areas will necessarily translate into economic growth as it has in other parts of the world. This is particularly so if such rapid urbanisation is not accompanied by key infrastructure and policy changes to accommodate more people in cities.
- 2.17. Likewise, Participants noted that the sheer enormity of ADF countries' physical size coupled with their vast natural resources and unique weather patterns make these countries particularly vulnerable to the severe consequences of climate change, which permeate every aspect of African life. And whereas ADF countries are some of the most-affected by global climate change, they are also some of the least equipped to deal with the consequences of such change. For example, an El Niño-related weather shock in 2015 and early 2016 has caused severe drought conditions across much of Eastern and Southern Africa with dire consequences including food price inflation in a number of countries. Although this El Niño season has ended, its impact will have a broad range of long-term consequences beyond 2017 with cascading effects on livelihoods, health conditions and the overall poverty outlook.
- 2.18. Overall, the combination high population growth rates, rapid urbanization and, climate change is speeding up environmental degradation in many communities in ADF countries are increasingly susceptible to physical, social and economic challenges at a scale and frequency they have not faced before. This increases vulnerability to climate change impacts and, in turn, undermines the continent's progress towards Agenda 2030. In fact, today most ADF countries are population and climate hotspots whose development efforts are being harmed by a combination of the high population growth rates, the projected steep declines in agricultural production and, the low resilience to climate change. Addressing population challenges in these hotspots will help increase resilience to climate change, and contribute to development goals such as better food and water security.
- 2.19. However, despite the strong links between high population growth rates, rapid urbanisation and climate change, and their collective role in sustainable development, these issues are often addressed separately at

national and regional policy and programme levels. This lack of integration is explained by several factors, including: (i) weak coordination and governance mechanisms for climate change; (ii) the absence of climate change policies or fragmented, and often conflicting, policies among various government agencies; (iii) weak technical capacity in state agencies to demonstrate the benefits of integrating demography, climate change and development goals; technical incapacities to design integrated programmes; and (iv) lack of funding for developing and implementing such programmes.

#### *Policy Options for ADF countries*

- 2.20. Against this backdrop, Participants agreed that policy priorities differ across ADF economies depending on the national objectives of the various governments. However, a common theme is that urgent action, using all policy levers, is needed to head off growth disappointments and combat the damaging perceptions that policies are ineffective in either maintaining growth or providing rewards that are not widely shared across income groups particularly those at the bottom-of-the-pyramid.
- 2.21. Participants agreed that the broad common policy objectives across ADF economies should be continued convergence to more sustainable and inclusive growth, through a reduction of distortions in product, labour, and capital markets and through prudent investments in agriculture, energy, infrastructure, and human capital and social development. These goals can only be achieved in an environment safe from financial vulnerability. Those ADF economies with rising debt must adopt stronger debt distress risk management practices.
- 2.22. Participants also agreed that adjustment to re-establish macroeconomic stability is urgent for those ADF countries hardest hit by the slump in commodity prices. This necessitates eschewing exchange rate controls, tightening monetary policy as required so as to contain inflation, and ensuring that needed fiscal consolidation does not unnecessarily restrict growth. Participants noted ADF's poorest and fragile economies need assistance to build fiscal buffers. They highlighted the importance of ensuring continued spending on critical capital needs and social programmes, strengthening debt management, and implementing the structural reforms, including for skills development, conducive to economic diversification and higher productivity.
- 2.23. Participants confirmed that, with growth weak and both fiscal and monetary policy space limited in many ADF countries, continued assistance by development partners is required in several areas to minimise risks to financial stability and accelerate progress on achieving SDGs. This effort must proceed simultaneously on a number of fronts. Policymakers in ADF countries should focus on the long-term benefits of regional economic integration and ensure that well-targeted initiatives assist some of the most vulnerable segments of society.
- 2.24. The financing necessary for ADF countries to accelerate progress towards the SDGs remains large and is estimated, on average, at an additional financing of 11.3% of GDP annually for the next ten years. This is the minimum required to significantly alter the course of growth from its current state to higher and more sustainably transformative levels and represents approximately US\$130 billion per year at current GDP levels.
- 2.25. Participants discussed the need for the ADF to work with recipient country governments, other development partners and stakeholders to invest more in population and climate change work, to address the two issues together in policies and programs, and to build the technical capacity to develop programmes.

### **3. The Distinctive Role of the ADF in Africa's Development Aid Architecture**

#### *The ADF's niche and value addition*

- 3.1. Since its establishment in 1973, the ADF has represented an enduring partnership for development between ADF donors and African countries, becoming an important source of funding and technical assistance for some 40 low-income countries in the most challenging environments. The Fund's resources from more than 30 donor countries have financed projects and programmes across ADF-eligible countries. ADF countries include both those that are increasing their economic capacities and heading toward becoming the new emerging markets and those that remain fragile and need special assistance for basic service delivery.

Nearly half of ADF countries are emerging from difficult economic conditions due to conflict and external shocks.

- 3.2. As a pan-African development institution engaged in Africa's low-income countries across the continent, the Fund has a unique role to play as the voice of Africa vis-à-vis the donor community. The ADF's distinct comparative advantage lies in its proven track record of (i) achieving notable results in fragile states; (ii) developing and delivering catalytic regional operations; (iii) delivering transformative infrastructure projects; and (iv) implementing successful sectoral approaches (as delineated in its highly selective High5s). By the conclusion of the ADF-13 cycle at end of 2016, the Fund will have, since its inception made UA 34 billion available to recipient countries.<sup>3</sup>
- 3.3. The ADF's comparative advantage in supporting Africa's low-income countries is rooted in its several mutually reinforcing roles, which collectively form its value proposition of being the single largest source of concessional, long-term and country-based financing devoted to Africa's most vulnerable countries. Of particular note is that the Fund has now acquired considerable experience in countries affected by situation of fragility. As part of its mandate, the ADF:
- works with other development partners to build more inclusive and sustainable economies, where promoting opportunity for all increases productivity, resilience and economic growth, while also investing in human and social development;
  - supports recipient countries to find solutions to collective action problems at the regional level, thereby overcoming certain scale and capacity challenges of small countries;
  - provides predictable financing and policy advice to help recipient countries deliver essential public investments and services, while building targeted social safety nets to protect the most vulnerable people and communities;
  - provides a wide range of flexible financing terms using an array of instruments and, as appropriate, works in tandem with the AfDB and other development partners to crowd-in more resources from donor countries; and
  - customises global, continental and regional knowledge to specific local conditions to bring vast experience to policy-making and facilitation in ADF countries.
- 3.4. Participants agreed that the Fund is well-positioned to assist eligible recipient countries in creating an enabling environment for achieving global goals. Guided by the ADF's institutional mandate and recipient countries' development goals, Participants committed to raise an important part of the required flows through direct financing, leveraging the ADF's capital or catalysing other resources. Participants agreed on the need for the ADF to actively continue to:
- attract more concessional funding to provide grants and concessional lending to low-income, fragile and conflict-affected ADF countries;
  - combine the Fund's knowledge and experience with recipient countries' perspectives, offering policy and technical advice tailored to local conditions;
  - build safety nets, as appropriate, by providing support to economies affected by adverse shocks to strengthen their resilience to such shocks;
  - help recipient countries implement actions for climate change adaptation and mitigation and disaster risk management;
  - work to strengthen domestic financial markets and deepen financial inclusion;
  - promote the highest social, environmental and governance standards; and
  - strengthen collaboration, coordination and harmonization with other donors, in particular, with the International Development Association (IDA) of the World Bank Group to align better to ADF recipient countries' priorities, systems and procedures.
- 3.5. The ADB Group provides a flexible environment in which to leverage the ADF to tackle the triple challenges ADF countries face. These include large, poor, rural populations, negative effects of climate change, particularly in agriculture, and large significant youth unemployment and underemployment. The ADF can provide solutions to create jobs, raise agricultural productivity including smart agriculture and support communities to adapt to climate changes. Tackling these challenges, would contribute to reducing the outflows of young people migrating out of Africa and reduce the security challenges and instability.

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<sup>3</sup> See, AfDB Group (2016). Annual Report 2015 covering the period 1 January to 31 December 2015 prepared by the Boards of Directors of the African Development Bank and the African Development Fund. ADB-ADF/BG/AR/2015.

- 3.6. Participants also agreed that the ADF could and should do more within its mandate to provide innovative financing and policy solutions customised to the particular needs of each ADF country or groups of countries. In particular, the Fund will continue promoting instruments that crowd in resources from the private sector such as the guarantee products and will expand its size through Concessional Donors Loans, Bridge Loans. Efforts to enhance the Fund's relevance and capacity to meet ADF country needs will be pursued as part of the Policy Lab and an ADF-15 Working Group on innovative financing.
- 3.7. The Fund should work harder on sharing experiences, lessons learned and best practices acquired through its work. This will include working with recipient countries to translate the SDGs into national targets and introduce and implement the policies and programmes needed to achieve them. The ADF should further improve coordination and complementarity with multilateral and bilateral development partners, as well as with other public and private sector actors. The ADF should also enhance how it measures effectiveness in order to continue to learn from what works and what does not.

### *Key findings of the independent evaluation of ADF 12 and ADF13*

- 3.8. During the course of ADF-13, the Independent Development Evaluation Department of the Bank Group (IDEV) conducted several significant evaluations that touched on the work of the ADF.
- 3.9. First, IDEV conducted an independent assessment of the processes, delivery and implementation of ADF-12 and ADF-13 commitments. The specific objectives of the evaluation were to draw conclusions and lessons about (i) the relevance of the agreed commitments to the Bank Group's challenges and priorities; (ii) the efficiency of the processes in reaching agreement on a coherent and realistic portfolio of commitments; (iii) delivery of the commitments (assessing outputs such as documents, establishment of new structures or processes); and (iv) the effectiveness of subsequent implementation. IDEV shared preliminary findings of the evaluation with Participants at the Mid-Term Review (MTR) of ADF-13.
- 3.10. The evaluation found that the Bank Group delivers on its ADF-12 and ADF-13 commitments, produces important knowledge products, tools, and structures and launches innovative initiatives. At the same time, the evaluation found that the Bank Group could do more to resource emerging initiatives, implement them effectively and bring them to their full conclusion. It recommended that the Bank Group should:
  - focus on fewer and more strategic commitments, with realistic timelines and estimated costs for delivery;
  - enhance monitoring and managerial accountability for implementation of all commitments, not only for one-off deliverables;
  - simplify the ADF replenishment process; and
  - seek early Board ownership of commitments.
- 3.11. Participants welcomed the evaluation and agreed that commitments for ADF-14 should be strategic and streamlined. They agreed that partnership between Deputies, Board and Management was important and shared IDEV's emphasis on implementing policies and strategies. The need for continued focus on effectiveness and efficiency was also stressed.
- 3.12. IDEV also conducted a Comprehensive Evaluation on Development Results that examined the performance of Bank Group interventions across the continent and the quality of Bank Group country strategies in a sample of 14 countries between 2004 and 2013, including several ADF ones. The evaluation also looked at the Bank Group's ability to engage in productive partnerships at country level. The evaluation of the Bank Group's performance identified critical areas for improvement, including the economic sustainability of the Bank's operations, the selectivity of its country strategies, project design and supervision and the quality of its learning.
- 3.13. Participants acknowledged the importance of the evaluations reporting mechanism which allows both the management and the Board to embed the lessons learnt in new project design therefore contributing to strengthen the learning process as well as the institutional change. Participants agreed that real time evaluations would add to learning and speed up institutional change.



### *Participants' responses to Fund operations under ADF-13*

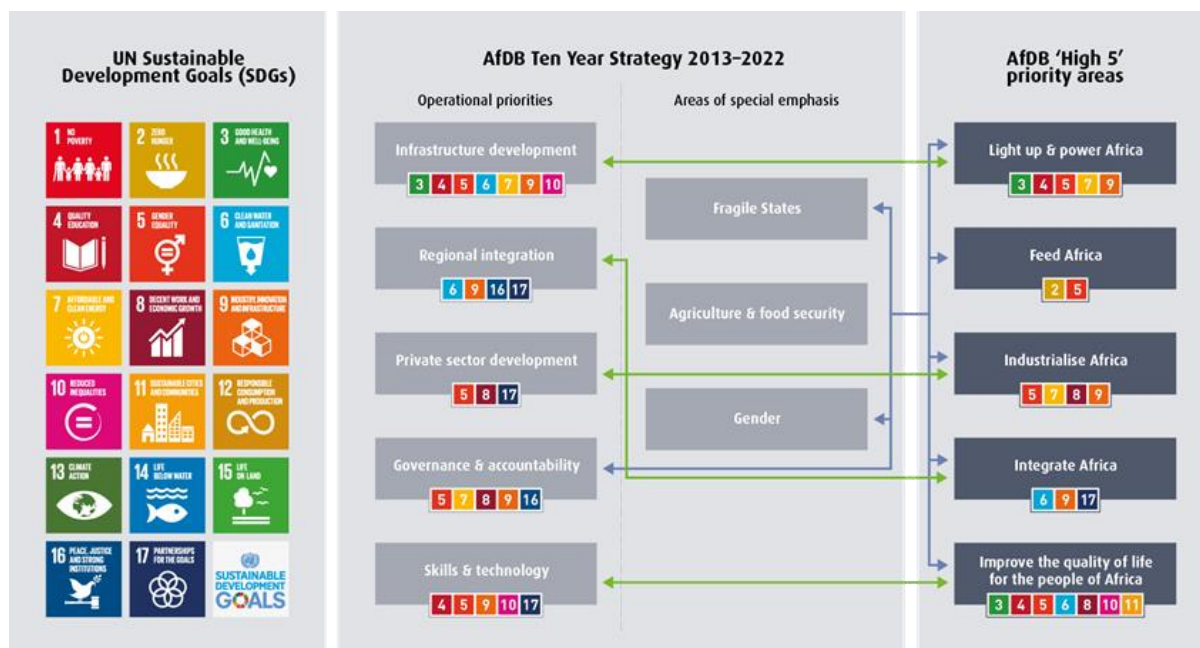
- 3.14. Participants recognised that the Bank has delivered satisfactorily on its commitments under ADF-13, which is particularly praiseworthy in light of the move by the AfDB Group from Tunis to Abidjan. They noted, however, the lower than projected disbursement rate and the slow uptake of the innovative financing instruments, namely the partial credit guarantee and the partial risk guarantee. Management assured Participants that the Private Sector Credit Enhancement Facility, despite the delay in its establishment, was now fully operational and in strong demand.
- 3.15. Participants highlighted a number of points to steer future Fund operations. They asked that close attention be given to debt sustainability of ADF countries. They also requested dedicated data on the ADF within the overall Bank Group's results framework, noting that the Annual Development Effectiveness Report did not differentiate between the ADB operations and the Fund's operations. Management presented results attributable to ADF-11, ADF-12 and, to the extent possible ADF-13, during the first replenishment meeting.
- 3.16. Participants agreed that there was still room to strengthen the Bank's capacity to deliver effective results on the ground. They requested that the Bank Group play a key role in climate financing and Management confirmed that energy and climate finance was at the top of the Bank's agenda. On governance, Participants emphasised the importance of mainstreaming governance across ADF operations and promoting domestic resource mobilisation, good governance of natural resources taxation and enhanced public financial management. They also noted that the Fund should play an increased role in curtailing illicit financial flows from the continent and reducing money laundering.
- 3.17. On institutional effectiveness, Participants noted that almost all ADF-13 commitments have been met and the return to Abidjan had been well-managed. Some Participants requested completion of the independent skills audit and new compensation framework, noting that culture change would require sustained support from top management and the Board. Participants also stressed the importance of improving the gender balance within the institution, in particular at management level. Management highlighted that work on a new business model was well advanced and that it would be supported by a new organisational structure and culture based on skills, delivery and appropriate incentives. Participants also encouraged the Bank to strengthen its capacity to ensure cost-efficiency. Management committed to squeezing out any inefficiencies, while noting the reality that Abidjan has a higher cost of living than Tunis.

## **4. Strategic and operational priorities for ADF-14**

### *Deepening and consolidating gains within the Bank Group's Ten Year Strategy's priorities*

- 4.1. The Ten Year Strategy 2013-2022 sets the overall framework for the Bank Group's support to Africa's transformation over the long term. The Bank Strategy's twin objectives are to support the Bank Group's Regional Member Countries (RMCs) in their effort to achieve inclusive growth and transition to green growth.

**Figure 1: Bank Group's Strategy Framework**



- 4.2. To respond proactively and effectively to the 2030 Agenda<sup>4</sup> and African countries' increasingly pressing development needs, the Bank Group, including the Fund, will selectively scale-up results in the Bank Strategy's five priority areas or High 5s which are: i) light up and power Africa; ii) feed Africa; iii) industrialize Africa; iv) integrate Africa; and v) improve the quality of life for Africans and address the four key crossing-cutting issues of fragility, governance, climate change and gender.
- 4.3. These High 5s priorities are interconnected. The nature and extent of these interconnections are highlighted in each of these High 5 strategies. They ultimately target economic transformation and inclusive and sustainable growth as main goals. However, interconnection doesn't necessarily results in greater coordination and maximization of potential synergies. Recognising this challenge, the Bank is going through a structural transformation in view of revamping its business model. In addition to moving closer to its clients, streamline the business process, improve financial performance and operate a culture change, the Bank redesigned its internal architecture to better match the priorities with the structure (see section 5.2)
- 4.4. A strong ADF-14 replenishment will contribute to achieving the important commitment made during the Addis Conference and will also crowd-in and leverage private sector investment which is pivotal to achieving the ambitious 2030 Agenda. The Fund will deploy its full range of products and other innovative mechanisms and partnerships to crowd-in funds, to help bridge the overall development financing gap and contribute to delivering the Fund's priorities and achieving the global goals.

#### Lighting and powering Africa

- 4.5. The Bank Group strategy for the New Deal on Energy for Africa 2016-2025<sup>5</sup>, approved by the Board of Directors in May 2016, has the aspirational goal of achieving universal access to electricity by 2025 and takes a holistic view of the sector, encompassing on and off-grid solutions as well as access to clean energy-oriented solutions for cooking, heating and lighting. This strategy sets out five inter-related and mutually reinforcing principles: (i) raising aspirations to solve Africa's energy challenges; ii) establishing a Transformative Partnership on Energy for Africa; (iii) mobilising domestic and international capital for innovative financing in Africa's energy sector; (iv) supporting African governments in strengthening

<sup>4</sup> Collectively, the Addis Ababa Action Agenda and the SDGs constitute the 2030 Agenda which has been completed thereafter by the commitments made during the 21<sup>st</sup> Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change.

<sup>5</sup> Bank Group Strategy for the New Deal on Energy for Africa 2016– 2025 – Revised Version, ADF/BD/WP/2016/18/rev.3, June 5, 2016.



energy policy, regulation and sector governance; and (v) increasing the Bank's investments in energy and climate financing.

- 4.6. At least 145 million new electricity connections are needed to meet the power needs of ADF countries. Considering the needs in ADF countries, the overall Bank's objective is to create i) 70 GW new on-grid generation capacity (of which 40 GW by Independent Power Producers (IPPs)); 90 million on-grid connections and 45 million off-grid connections (with the private sector providing the technology and distribution for the vast majority); and ii) provide access to clean energy for cooking, heating and lighting for around 105 million households. Access to clean energy solutions will also have a transformative effect on the lives of women and girls, not just by reducing their workload and improving livelihoods, but also by enhancing their health, safety and quality of life. Access to clean energy solutions will have additional and transformative effects on the lives of women and girls, not just by reducing their workload and improving livelihoods, but also by enhancing their health, safety and quality of life.
- 4.7. The Bank is clearly leading on renewable energy. We will help Africa to unlock its full energy potential to support its industrialization. Effective partnerships are being implemented with the UK's Government's Energy Africa Initiative, the African Renewable Energy Initiative (AREI, to which Germany and France committed to contribute), the US Power Africa, the Sustainable Energy for All, Millennium Challenge Corporation (MCC), the Sustainable Energy Fund for Africa, USAID and OPIC, among several others.
- 4.8. ADF resources will contribute to this overall objective by combining investment in hard electricity infrastructure (generation, transmission, and distribution facilities, on and off grid) with technical advising on policy and regulatory frameworks that will contribute to strengthen the sector's enabling environment. In addition, ADF operations will also support increasing energy efficiency in a holistic approach that also looks at climate change and maximizing opportunities for using renewable energy, including under the Industrialize Africa strategy (see also paragraph 4.2.1.20 on governance).
- 4.9. Projects approved over the ADF-14 period will contribute to install in due course up to 5,000 MW of power capacity in ADF-eligible countries, providing household and business with new or improved electricity connections and delivering health, education and employment outcomes. Management estimates that approximately 10 million households in ADF countries will benefit from improved electricity connections

#### Feeding Africa

- 4.10. Growth and urbanisation are creating vast unmet demands for food and agricultural products. The continent needs proper regulatory institutional frameworks that protect and warrant access to property rights, especially to small holders, and a major injection of both public and private finance into all stages of the agricultural value chain, using finance in smarter ways to create dynamic enterprises throughout the sector and markets. This must include both small- and large-scale agribusinesses, to ensure that agricultural development generates inclusive growth. The materiality of agriculture as a source of livelihoods in Africa and the potential to substantially drive inclusive growth makes it also an important lever to end hunger and malnutrition by increasing year-round access to nutritious and sufficient food, doubling the agricultural productivity and incomes of small-scale food producers, and increase investment in rural infrastructure, agricultural research and extension services, and technology development.
- 4.11. The Bank approved a new strategy setting out the Bank Group's Agricultural Transformation Agenda (ATA)<sup>6</sup>. The goals of the ATA are consistent with, and reinforce, the goals of the Comprehensive Africa Agriculture Development Program (CAADP) and the Malabo Declaration, and include: (i) contributing to the end of poverty; (ii) ending hunger and malnutrition in Africa; (iii) making Africa a net food exporter; and (iv) moving Africa up along export-orientated value chains, in which it has a comparative advantage. Reaching these goals will have a transformative impact on economic diversification, agricultural productivity, food security and reducing inequality particularly among women and youth. ATA recognizes the importance of land reforms, particularly for women as the majority of African countries have laws that perpetuate unequal inheritance rights, such as not granting land tenure to widows or daughters, despite the fact that over 60% of African farmers are women which, despite representing 60 of African farmers, are excluded from land access due to regulatory frameworks in several African countries that perpetuate unequal inheritance rights (such as not granting land tenure to widows or daughters). Accordingly, the Bank

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<sup>6</sup> Feed Africa: Strategy for Agricultural Transformation in Africa 2016-2025, ADF/BD/WP/2016/28/Rev.1, June 22, 2016.

will, among other things, support land policy reforms through the Africa Land Policy Centre and also through the AFAWA Facility being set up.

- 4.12. ADF-14 will be crucial for the successful implementation of the ATA. Significant ADF-14 resources alongside other Bank Group's (including private sector sources) will be deployed to undertake three sets of mutually related activities in eligible countries that demonstrate "readiness to transform"<sup>7</sup>. These activities are
- large-scale dissemination of productivity-increasing technology and inputs;
  - development of input and output market structures and incentives that allow increased production; and
  - an efficient private sector that can manage and allocate skills and capital to drive long-term sustainable agribusiness growth.
- 4.13. Ending hunger and malnutrition in Africa by 2025 is also identified as one of an important trio (the others being sustainability and inclusivity) of cross-cutting enablers that should underpin all Feed Africa actions. These actions include increasing support for community-led nutrition programs in high-need countries; investing in harmonizing norms for bio-fortification across countries and capacity-building at the country level; and, financing programs to increase the production of nutrient-rich foods. Success in transforming agriculture would increase food security, raising agricultural productivity, contribute to job creation through SMEs and improve the quality of life for small-holder farmers and especially women.
- 4.14. Operations implemented during ADF-14 will contribute to ATA's implementation by improving agriculture productivity, increased income and poverty reduction in rural areas, through water management support to 197,000 additional hectares of land and access to new technology to over 40 million people. As African farmers are increasingly susceptible to climate change induced fluctuations in rainfall and temperatures, there is need to increase the use of climate-smart agriculture (CSA) centred on efficient use of inputs, climate resilience and greenhouse gas emission reduction. The Bank intends to mainstream the adoption of climate smart innovations in all its flagship project, including those financed with ADF resources.
- 4.15. In addition, ADF-14 resources will be catalytic to implement the Bank overall objective of strengthening inclusive public-private partnerships for priority agricultural commodity value chains with strong linkage to smallholder agriculture which will be achieved through two activities: i) structured finance in syndicate deals with commercial banks and other creditors (e.g., mezzanine debt, credit guarantees, etc.) to advance public-private partnerships and other infrastructure projects aligned with the ATA's objectives; and ii) project development and other advisory services to increase quality of agricultural infrastructure projects throughout the continent.

#### Industrialising Africa

- 4.16. Through the proposed Industrialize Africa strategy<sup>8</sup>, the Fund will address a diversity of challenges encountered by the private sector and support value addition, so as to increase regional trade, improve the balance of payments and expand formal employment. Implementing the industrialisation strategy will also have a strong impact on the creation, transformation and expansion of micro, small and medium enterprises (MSMEs) and job creation, especially for youth and women. This would create new jobs and transform existing jobs as well as raise productivity. The strategy will increase productivity through supporting automation, quality management, improved processes and training. Priority will be given to GDP catalytic projects and to SME linkage programmes in order to directly address the needs of the poorest socio-economic group and enable ADF countries to deliver inclusive growth, led by the private sector. Special attention will be given to countries in situations of fragility, where "business as usual" cannot promote private sector development, because of the high risk environments. Efforts will be made to link ADF countries through regional integration to create larger markets. To achieve these goals, the strategy would rely on five enablers which the Bank will mainstream into flagship programs. These are: (i) Supportive

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<sup>7</sup> Based on current plans received, 21 ADF countries have been classified either as Segment 1 - Lead Transformation Countries (9) or Segment 2 - Tactical Opportunity Countries (12).

<sup>8</sup> Bank Group Industrialization Strategy for Africa, ADF/BD/WP/2016/36/Rev.2.

policy, legislation and institutions; (ii) Conducive economic environment and infrastructure; (iii) Access to capital; (iv) Access to markets; and (v) Competitive talents, capabilities, and entrepreneurship.

- 4.17. It is worth noting that industry assessments will be carried out as part of the CSP preparation/mid-term review to identify specific bottlenecks and challenges to a country. The tailored response will aim at addressing the key enablers of the industrialization and better define ADF contribution through financing governance/policy reforms and risk participating in non-sovereign operations to the implementation of the various industry flagships programs.
- 4.18. In addition, the Bank Group will enhance cooperation and collaboration with key development partners that are seeking to tackle the challenges of industrialisation and economic transformation. The Bank has already initiated a partnership with UNIDO and UNECA to leverage on their experience and vast knowledge related to Africa industrialization matters. Memorandum of understanding which sets out the partnership modalities has been defined. A strong collaboration/coordination on knowledge products is a central aspect of the Bank Group strategy partnership for industrialization. The collaboration will among other things inform the design of CSPs and RISPs so as the Bank Group's interventions in a country can rely on strong analysis and diagnostics as regard to industrialization challenges.
- 4.19. The Bank Group's operations to support industrialisation in ADF countries during the ADF-14 period will create 35 industry clusters<sup>9</sup> that will help raise the industrial contribution to GDP, and will benefit 16.9 million people, with more than half constituting women and youth. This will be achieved through investee projects and the expansion of microfinance, with up to 1.33 million microcredits provided to enterprises.
- 4.20. In addition to support (through PBOs) reforms that are conducive to improving the business environment for entrepreneurship and industrialization, ADF resources will be deployed to crowd private sector financing by supporting the risk participation related activities. In particular, the through the PSF will contribute to scale-up Bank's non-sovereign operations in sectors such as agri-business, domestic processing, extractive industries and services.

#### Integrating Africa

- 4.21. Overcoming disadvantages arising from geographic isolation and fragmentation, as well as natural resource dependence, will be necessary if ADF countries are to close the growth gap with other regions. With a significant proportion of ADF countries being landlocked, it is necessary to compensate for that disadvantage, primarily by closing the infrastructure gap.
- 4.22. The Integrate Africa priority<sup>10</sup> focuses on addressing key barriers separating African countries, particularly landlocked ones and those in situations of fragility. It aims to create regional value chains, leverage complementarities and reduce the costs of movement of goods, services and people in order to exploit the continent's huge market potential.
- 4.23. Working with regional institutions, the Fund will implement operations that address challenges to regional integration, including those faced by cross-border traders. These projects will help develop transport infrastructure and harmonise cross-border policy. As ADF-economies are often small and isolated, the Fund will increasingly invest in regional energy pools and link countries to regional markets through transport corridors. In addition to investments under the Program for Infrastructure Development in Africa (PIDA), the Fund will continue to support Regional Economic Communities' (RECs') to build capacity and develop information and payment systems as well as harmonise investment and engineering codes. The Fund will assist REC and national authorities in their efforts to eliminate non-tariff trade barriers, and will also give particular support to measures that prevent harassment of women traders at borders and change the visa regime to assist the free movement of people.

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<sup>9</sup> Industrial clusters are industrialization tools that contribute to improve countries' trade balance and, if successful, tax revenues increase in the long term. Industry clusters are used around the world to improve the competitiveness of a sector and accelerate its development by facilitating access to resources (financing, infrastructure, and people). And through a comprehensive value proposition and high-quality service, including business and incentive schemes (fiscal and 'doing'-business incentives); infrastructure services (public utilities, real-estate and basic services); talent pool with relevant programs for training, work environment enhancement and connectivity to nearby cities; and governance and business model frameworks to support the operations (e.g. marketing activities to attract new enterprises and long-term quality service).

<sup>10</sup> African Development Bank Group Regional Integration Policy and Strategy 2014-2023, ADF/BD/WP/2014/98/Rev.1/Approved.

- 4.24. Operations implemented during the ADF-14 will enable over 44.5 million people to benefit from improved access to transport and 9.8 million to be trained in road maintenance and safety.

Improving the quality of lives of the people of Africa

- 4.25. To ensure economic growth translates into job creation and poverty reduction, the Bank will implement its Jobs for Youth in Africa (JfYA) Strategy<sup>11</sup> alongside the other High 5' strategies. This strategy aims to support inclusive growth across the continent by equipping youth, in particular young girls/women with the skills needed to realise their economic potential. Working in unison with demand driven interventions of the other High 5 priorities, especially Feed Africa and Industrialize Africa, the Fund will promote entrepreneurship, strengthen know-how and skills and create durable labour market linkages. Implementation will be multi-pronged and include: (i) support to the Fund's projects; (ii) flagship programmes to provide ADF countries with advice and financial support; (iii) an online Knowledge and Innovation Lab; and (iv) increased private sector investment promote by reducing the risk and cost of financing, which is particularly pronounced in ADF countries. In sub Saharan Africa, where the working poor constitutes almost two-thirds of the total employed, the fundamental challenge for ADF countries is not only creating jobs, but improving the quality of jobs and self-employed agricultural work. The jobs for youth in Africa strategy which amalgamates and scale up efforts across the Bank, and leverages external productive partnerships, focuses on inter alia developing skills to boost productivity and competitiveness through value chain approaches, particularly in the agriculture sector, technological innovations, and creating jobs with strong linkages to private sector and entrepreneurship enhancement. In addition to create quality jobs, the implementation of the JfYA will contribute to generate economic opportunities in the lower income countries and fragile situations in Africa which will mitigate out-migration. The Bank Group recognizes the importance of human capital and supports this through vocational and higher education, school-to-work transition and centres of excellence in higher education.
- 4.26. The flagship programmes have been built based on lessons learned from countries. These models work for the countries and they would like to scale them up. The Fund, alongside other Bank Group's financing mechanisms, will provide this possibility. Within the ADF countries, a gradual approach will be adopted, starting with a few sites financed by the Fund to catalyse more resources. ADF resources will also be focused on expanding finance for higher risk, under-served groups such as SMEs and women-headed businesses.
- 4.27. The Jobs Strategy aims to help create at least 17.5 million jobs in ADF countries and provide 50 million youth across the continent with economic skills by 2025. All the jobs to be created will be gender disaggregated, with at least 50% of the jobs benefiting women.
- 4.28. In addition to the Jobs Strategy, the Fund will continue its support to other critical areas that contribute to improving the quality of life of Africans. The Fund will scale up its support to social protection systems and health systems strengthening, drawing important lessons from the Ebola crisis. It will promote dialogue and build capacities to enhance value for money in social spending and step up support to Education, Science, Technology and Innovation for industrialisation and economic transformation. Under ADF-14, the Fund will work with other partners to provide greater access to improved health services, including in the context of health crisis like it did on a very proactive way when the Ebola crisis affected some of the most vulnerable ADF countries. In such crisis context, the Fund will also aim at mitigating macroeconomic consequences that could affect its countries of operations in coordination with key partners.
- 4.29. The Fund will also accelerate efforts to address the infrastructure gaps that directly affect water security, which reduces well-being and undermines overall socio-economic development. Improving water security, through integrated water resources management both at national and regional levels, will contribute to agricultural development, energy production, industrialisation and regional integration. The Fund will scale up its work in this area, with a particular focus on increasing access to safe drinking water and sanitation. Interventions in water and sanitation will benefit 8 million people in ADF countries during the ADF-14 period.

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<sup>11</sup> Bank Group Strategy for Jobs for Youth in Africa, 2016-2025, ADF/BD/WP/2016/31/Rev.2, May 18, 2016.

### *Crosscutting themes: strengthening strategic links and innovative approaches*

- 4.30. Scaling up implementation in the five priority areas of the TYS will be possible only if four critical cross cutting areas (climate change, fragility, gender and governance) are fully mainstreamed in the Bank Group's operations in view of achieving greater impact in terms of job creation and poverty reduction in ADF countries. These cross cutting areas are also critical for achieving Bank's commitments at international, regional and national levels, and will require strong partnership with other development partners.

#### Fragility

- 4.31. In line with the Bank's understanding of fragility as a risk to the development process, issues of fragility need to be systematically considered in all countries. Several ADF countries remain conflict-ridden and others are post-conflict and vulnerable to a relapse into crisis. Yet others are making headways towards resilience. However, in all these circumstances, the countries typically face the accumulation and combination of disruptive risks while having insufficient capacity in the state system to manage, absorb, or mitigate the consequences. Exposure to these risks can lead to a range of negative outcomes, including violence, conflict, protracted political crises, forced migration and chronic underdevelopment.
- 4.32. ADF countries dealing with fragility encounter disproportionate economic, social, gender and environmental challenges that exacerbate the existing structural constraints, including the lack of economic diversification and limited human and institutional capacity. Current trends suggest that poverty will be increasingly concentrated in countries in fragile situations. As a result, these countries will require more attention as well as predictable and longer term concessional finance to achieve the SDGs and break the fragility trap. In the meantime, official development assistance numbers show that many of these countries continue to be "aid orphans", with their combined aid representing around half of the amount received by non-fragile countries. This poses a serious threat to the ambition of 'leaving no one behind' that underpins the SDGs.
- 4.33. Participants recognised the continuing need for traditional concessional finance for this set of countries during ADF-14 and highlighted the need to build effective and legitimate institutions and to support reforms to improve the business environment and facilitate private investments.
- 4.34. The Fund, and in particular the Transition Support Facility (TSF) has been instrumental in supporting recipient countries facing situations of fragility, including through a regional approach. Not only the TSF has played a critical role in supporting countries in situation of fragility to transitioning out of fragility (as the example of Côte d'Ivoire shows)<sup>12</sup> but also contributed to respond to situations requiring urgent and fast track response such as the case of the Ebola epidemic. However, recent incidents of the risk posed by fast-moving pandemics and sudden political downturns leading to civil conflict, mass displacement and refugees, confirm the need to enhance further the Fund's nimbleness in these contexts. Likewise, the TSF's Pillar III has also provided targeted technical assistance and institutional capacity building aimed at strengthening the beneficiaries' capacity in such areas as public administration, economic and financial management, service delivery and the management of natural resources. Pillar III resources have, for example, supported the critical work of the African Legal Support Facility (ALSF) in providing legal advice and technical assistance to eligible ADF countries in negotiation of complex commercial transactions, creditor litigation and other related sovereign transactions.
- 4.35. To scale up its impact and sustain the results that have been achieved, the Fund will deepen its understanding of the root causes of fragility and the sources of resilience through continued use of the Fragility Lens and full implementation of the Country Resilience and Fragility Assessment tool. Through the use of these tools, the Fund will pay increasing attention to anticipate the risk of an outbreak of crises or a relapse into conflict. Special attention will be also given to ensure consistent application of the fragility and gender guidelines and gender marker, as well as the systematic measurement of impact of TSF on gender equality. Intervention such as the ongoing projects in South Sudan, Sudan and Guinea Bissau will be implemented on a large scale to enhance gender-focused institutional interventions in fragile situations. Early and sustained engagement in coordination with development partners on the basis of joint assessments will be important cornerstones of this enhanced approach.

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<sup>12</sup> Côte d'Ivoire is transition out of fragility and the country will no longer be eligible for additional resources from TSF Pillar I under ADF-14.



- 4.36. The Fund will strengthen its business model to deliver in vulnerable environments under ADF-14 in three key ways. Firstly, the Fund will strengthen partnerships with other development actors including other MDBs, the UN system, AU, RECs and non-state actors in order to operate more effectively together in insecure environments. Secondly, with the adoption of the new Development and Business Delivery Model by the Bank Group, the Fund will strengthen its country presence including in countries in fragile situations. Furthermore, Management is putting in place incentives to attract the best talent to work in countries experiencing fragile situations. Analysis under the DBDM to assess locating staff in the hubs or in the countries will explicitly consider the needs of fragile states. The Bank Group is negotiating with the United Nations Department of Safety and Security (UNDSS) for security coverage in countries dealing with fragility. Thirdly, the Fund will improve its portfolio performance by drawing on the flexibility of the 2015 procurement policy and on the proposed Bank Group and UN Fiduciary Principles Agreement.
- 4.37. Encouraging greater private investments in fragile situations will be critical during ADF-14. ADF-14 will build on the positive results of the Private Sector Credit Enhancement Facility (PSF) under ADF-13 that allocated approximately half of its resources to projects in fragile situations, including in Côte d'Ivoire, the Democratic Republic of Congo, Mali, Niger, Sierra Leone, Togo and Zimbabwe. Côte d'Ivoire is an example of how the utilization of public and private investments through the TSF and PSF can effectively support a country-led transition from fragility to resilience. The PSF will therefore continue to be instrumental to scale up the Bank's non-sovereign operations portfolio in fragile situations that have an important signalling function to investors. In order to further strengthen the Fund's support in this domain, Pillar III of the Transition Support Facility will be used to strengthen the capacity of national investment promotion agencies to attract private investments, thereby creating important synergies across the various financing instruments of the Bank Group. Smart use of the Fund's guarantee instruments (PCG and PRG) will be used to de-risk investments in countries dealing with fragile situations, which, in turn, may increase the risk appetite of private actors.
- 4.38. The Regional Operations envelope will also contribute to consolidating the gains in fragile situations achieved in ADF-13. For example, its resources will be used to scale up the Fund's capacity to build drought resilience in the Horn of Africa, rolling out much needed transport corridors to unlock the economic potential in West Africa, and playing a complementary role for responding to emergency needs in these countries.

#### Governance

- 4.39. The Fund will redouble its efforts in mainstreaming the cross-cutting issue of good governance. By doing this, special attention will be given to the multi-dimensional nature of good governance (good governance is participatory and inclusive, accountable, transparent, responsive, effective and efficient, follows the rule of law, and is sustainable in the long run). Implicit in these principles is a zero tolerance towards corruption, the idea that the views of the under-represented are taken into account, and that the voices of the most vulnerable in society are heard in decision-making.
- 4.40. By improving governance mechanisms, processes and institutions that make governments accountable to citizens, and by supporting the ability of individuals and other members of civil society to participate in the governance and development of their own societies and communities, there is an opportunity to increase the impact of other development initiatives, resolve conflicts peacefully and without violence, and advance plural systems that respect universally-agreed norms. Effective policy dialogue will underpin the design of policy-based operations. Real time monitoring, evaluation and regular reporting on achievements will also be introduced. To the extent possible, cross-cutting sectoral issues will be handled through technical assistance, capacity building and the incorporation of soft components in investment projects.
- 4.41. Accountability assumes that those entrusted with authority over ADF resources use them legitimately, and that citizens are able to hold them to account for their decisions, policies and actions. To achieve this overarching goal, the Fund will support operations promoting greater transparency in fiscal frameworks and public financial management systems so as to ensure that the public has access to timely and reliable information about ADF interventions through reporting and feedback mechanisms, including clearly established processes and procedures.
- 4.42. Most ADF countries, including those in situations of fragility, have taken important strides to improve fiscal frameworks and public financial management systems. Despite this progress, the various governance issues

remain pervasive concerns in many ADF countries, undermining social, economic and political progress at many levels. The Bank Group has recently approved a Policy on the Prevention of Illicit Financial Flows.<sup>13</sup> All new Country Strategy Papers will ensure that governance is mainstreamed. The Bank Group is also working with partners to tackle illicit financial flows. A key concern remains transparency and social accountability, particularly in fragile states. The Bank Group is leading by example by actively releasing all its information in line with its Disclosure Policy.

- 4.43. According to the Bank Group's Country Policy and Institutional Assessment (CPIA), most ADF countries have only registered marginal improvement over the past decade. The average CPIA score in ADF countries decreased from 3.41 in 2014 to 3.39 in 2015 on a scale of 1 to 6. While the policy and regulatory environment for businesses has improved, significant challenges in other areas remain. For example, only 8 ADF countries rank among the top 100 in the Doing Business 2016 rankings. Mobilising additional domestic revenues also remains a challenge, resulting in excessive reliance on external resources, including non-concessional finance that can compromise debt sustainability if not properly managed. ADF has invested in improving tax administration and management systems, especially in countries dealing with fragility, and seen an improvement in tax to GDP ratios from an average of 13.5% of GDP in 2007 to 15.8% in 2015. Through the African Natural Resource Centre, the Bank has provided advice to improve management of revenues from natural resources in low income countries. However, more progress is needed if ADF countries are to create the fiscal space needed to invest in the SDGs. In particular, concrete reforms must be conducted to increase domestic resource mobilisation, fight illicit financial flows, and improve the management of public finances.
- 4.44. The Fund is expected to allocate about UA 721 million to governance-related interventions under ADF-14. ADF-14 will prioritise interventions in strategically important areas, notably through support to the 'soft infrastructure' needed to achieve the High 5s. The Fund will scale up its support towards the improvements in public financial management at both national and decentralised levels, with increased focus given to strengthening oversight institutions to improve transparency and accountability in the use of public resources, and promoting citizens' participation in decision-making. A continued focus will also be given to enhancing domestic revenue mobilisation efforts, including through scaling up initiatives to combat illicit financial flows and improving governance of natural resources. Given the scale of the Fund's investment and the importance of an enabling policy and operational environment for infrastructure and social services delivery, the Fund's work on governance will continue to give particular attention to addressing issues in high priority sectors, especially infrastructure. ADF-14 will also give strong emphasis to promoting a business-enabling environment. Establishing appropriate policy and regulatory framework for private-public partnerships and for SME growth, addressing issues of access to credit, streamlining business processes and enhancing contract enforcement will be a core part of the Fund's work in the area of governance. This will be delivered through a combination of Program Based Operations (PBOs) to support reforms and policy actions, as well as institutional support projects to ensure capacity is built and institutions strengthened towards ensuring successful implementation of reforms. Finally, where relevant, Governance and PFM will be mainstreamed into other sector investment operations, or sector budget support operations as relevant.

#### Climate Change

- 4.45. Africa contributes the least to greenhouse gas (GHG) emissions, constitutes 13% of the global population, and yet bears the brunt of climate change. It is projected that the cost of adaptation as a share of GDP will be highest for countries in sub-Saharan Africa and small-island developing states (SIDS). ADF countries' economies are particularly vulnerable to climate change as they are poorly diversified, lack investment, face low thresholds of resilience amongst subsistence economies and high reliance upon seasonal weather patterns. In addition, changing climatic conditions in countries in fragile situation have the potential to act as a 'risk multiplier', exacerbating food insecurity and further stretching disaster response measures. It is worth noting that African women are even more susceptible to the negative effects of climate change due to their heavy reliance on environment-related livelihoods – which also makes them an under-tapped resource in climate change adaptation and mitigation.

<sup>13</sup> ADB/BD/WP/2016/155 - ADF/BD/WP/2016/108.

- 4.46. ADF countries will require significant resources to adapt to the effects of climate change: To respond to this need and as part of the efforts of the MDBs to meet the COP21 agenda, the Bank Group has committed to trebling its climate finance to US\$5 billion a year by 2020. Central to this agenda will be ADF-14 interventions which will leverage additional financing from both public and private sources. More specifically, ADF-14 will scale up climate financing in eligible countries from around 25% currently to 35% of ADF commitments by 2019 and ensure at least ten operations in ten ADF countries by MTR and, subsequently, 28 operations in 28 ADF countries by 2019. By the end of the ADF-14 cycle, the proportion of projects screened for climate risk will have increased from 80% to 100%. In addition, in line with the 2015 Paris Agreement Particular, particular attention will be given to ensure that the Bank's climate change initiatives will ensure that ADF resources integrate gender dimensions from conception, implementation, to monitoring and evaluation.<sup>14</sup>
- 4.47. In line with the High 5s Agenda, operations during the ADF-14 period will target climate-resilient, low-carbon development that boosts growth, bridges the energy deficit and reduces poverty. The Bank's 2016-2020 Climate Change Action Plan pledges to enhance the capacities of all RMCs, including ADF countries to access global climate finance and achieve their Nationally Determined Contributions (NDC) by reducing the risk of low carbon and climate resilient investments and by availing concessional resources to public and private entities. The Bank will achieve this objective through trust funds such as the Sustainable Energy Fund for Africa, the Agriculture Fast Track Fund, the Rural Water Supply and Sanitation Initiative and the Africa Climate Change Fund.
- 4.48. As part of the Bank Group's New Business Delivery Model, the Climate Change and Green Growth Directorate will be responsible for mainstreaming climate change and green growth across all Operational Vice-Presidencies, ensuring that all High 5 activities have the chance to access climate and green finance and that all projects are screened for climate resilience. In addition, the Climate Adaptation and Green Growth Division will seek to work with ADF countries to help to develop policies and measures to achieve their NDCs. Carbon pricing, taxation on large point sources and links to domestic emission reduction projects are likely to be central themes, as are land use and deforestation.
- 4.49. The Climate Change and Green Growth Directorate will specifically help the Lighting and Powering Africa initiative implement clean and renewable energy by leading the Bank's clean cooking program to move millions of African's up the cooking energy ladder. For instance, we are already hosting a project to trial solar ice makers to provide low cost renewable cooling technology to farmers, fishers and households (using resources from the Climate Investment Funds). We will promote clean cooking technologies by working with ADF Governments to understand the impact of wood and charcoal based cooking on national GHG emissions and we are providing tools and working with Governments to develop policies that will support the deployment of renewable energy in preference to fossil energy. As part of its global responsibilities the Bank Group is considering differential pricing to shift the energy mix towards renewables. This option would be available to eligible ADF countries under the credit policy.
- 4.50. In addition to these financial and institutional commitments, the Bank Group has embarked upon a number of new initiatives to strengthen access to climate finance and assist RMCs in meeting their Paris Commitments:
- Participation in the Inclusive Green Growth Partnership (IGGP), a new collaboration framework between the Global Green Growth Institute (GGGI), multilateral development banks and United Nations agencies, that will address policy barriers, promote environmental and social inclusion at country level and strengthen pipelines of bankable projects in order to accelerate financing for green growth.
  - Developing and submitting proposals for a new mechanism under the Paris Agreement to finance Adaptation. The Adaptation Benefit Mechanism is designed to provide a price sign to private sector investors to invest in projects and technologies that deliver adaptation benefits to households, communities and economies. The Climate Investment Funds are supporting work to develop this. The Banks submissions to CoP22 can be viewed here.

<sup>14</sup> The 2015 Paris Agreement includes references to gender-balance, gender-responsive action and gender equality relating not only to the activities on the ground but also to the institutional environments and decision-making bodies



- Launching a GHG accounting and reporting tool designed to inform task managers and recipient Governments on the estimated GHG emissions from the construction and operation of new assets. This is a critical step in raising awareness among Governments of the footprint of GHG intensive assets such as power plants and transport infrastructure, and to facilitate the comparison with alternative technologies.

#### Gender

- 4.51. During the ADF-14 period, the Fund will ensure that gender equality and women's economic empowerment remains a top priority in all projects and operations, in particular those targeting climate change adaptation and mitigation, improving agriculture productivity, and developing small business. In addition to ensuring that gender is mainstreamed in new and on-going budget support and investment operations, the Bank will do the following:
- use the mid-term review of the Bank's Gender Strategy 2014-2018 to align its pillars to the High 5s, so that a sharper focus is placed on gender accountability in all operations and country strategy papers;
  - establish a Gender, Women and Civil Society Department that will influence project design and policy dialogue to ensure a stronger focus on gender in projects;
  - use ADF concessional resources to pursue special initiatives such as the implementation of the Affirmative Finance Action for Women Program, an African-wide programme addressing access to finance challenges faced by women in business, specifically women entrepreneurs, and small-scale and commercial women farmers. ADF-14 will also support business environment reforms to lower the cost and risks of providing finance for those women who have been hard to reach using traditional, non-concessionary finance;
  - introduce a Gender Marker System which will classify projects according to specific sets of requirements (see section 5.1.6). This will complement the existing operational procedures and sector-specific guidelines that guide task managers in gender analysis, project design, implementation, and monitoring. It will address the absence of a systematic approach to gender mainstreaming in projects and ensure that gender is not treated as an 'optional extra', addressed superficially or is dependent on the conviction of task managers;
  - design and implement a monitoring and evaluation system to start tracking, gathering and analysing data on gender for evaluation, which will be used to improve gender programming; and
  - develop a Gender Statistics Data Portal to capture new data from the Fund's supported household and other population based surveys at country and sub-regional levels. With the African Gender Equality Index<sup>15</sup>, the portal will collate both country and project specific gender disaggregated data, which will provide a more robust picture of gender inequalities across the continent.

#### *Tapping Africa's private sector potential to achieve the Bank Group's strategic goals*

- 4.52. Participants noted the ADF's indispensable role of mobilising private sector investment to help low-income African countries, including those in fragile situations, achieve the SDGs. The 2015 Addis Ababa Conference on Financing for Development highlighted the importance of crowding-in additional development finance from domestic resources and, crucially, from private sector investors. Deputies noted the Bank's High 5 priorities put significant weight on scaling up partnerships with the private sector.
- 4.53. For example, the goal of creating 70 GW of additional generating capacity to attain universal access to light and power in ADF countries by 2025 will require Independent Power Providers (IPPs) to provide about 40 GW. Private sector investment and knowhow is key to introduce the innovations needed to accelerate access to finance and support bottom-of-the pyramid payment solutions so that small farmers can access agricultural inputs and households can pay for decentralised energy access. Likewise, the strategy to industrialise ADF countries is envisioned to be private-sector led while being enabled by the public-sector.
- 4.54. Participants also agreed that private sector development plays a particularly crucial state-building and resilience-building role for countries in transition and in fragile situations. Only the private sector can generate employment growth and economic opportunities to consolidate gains from stability, generate the public tax revenues needed to deliver basic services to citizens and underpin state legitimacy, as well as

<sup>15</sup> Jointly launched in 2015 with the UN Economic Commission for Africa (UNECA).

support skills transfers and innovation. The Deputies agreed that addressing pockets of exclusion in ADF countries by increasing participation by women and the youth in private sector activities, through creating sustainable, productive jobs, and by boosting business ownership of women and youth entrepreneurs is one of the Bank Group's most effective means of creating social stability and reducing emigration pressures.

- 4.55. Participants noted that formidable challenges remain for private sector growth in ADF countries, and especially in countries in transition. Unpredictable policy environments and macroeconomic instabilities increase country risk and required returns; weak rule of law lowers security of investment; poor administrative capacity and skills affect the number of bankable projects; significant infrastructure gaps increase cost of business and lower profitability; and a shallow financial sector reduces availability of resources for investment. Private sector appetite to scale up investment in ADF countries is most repressed in agribusiness and agro-industry, and emerging business areas such as renewable energy and climate change mitigation, adaptation and climate risk management, where such market failures are most pronounced.
- 4.56. Participants agreed the importance of development finance in catalysing private investment in the riskiest countries and segments, and recognise the case for concessional finance to be deployed in ADF countries to address market failures arising from lack of adequate pricing of public-good externalities. Those failures create gaps between private and social returns that reduce incentives for private investment. Deputies acknowledged the significant efforts made by the Bank to support the expansion of the private sector in low income African countries over the past decade, mainly through the ADF sovereign window, providing technical assistance and programmes to support reforms that improve the business environment and investment climate. In addition the Bank Group is part of a number of smart partnerships aimed at financial sector deepening in several ADF countries.
- 4.57. Participants noted that the Bank Group has also increasingly provided direct financing support for private sector operations that can demonstrate early and visible benefits of implementing structural, policy and institutional reforms. The Bank Group significantly scaled up its portfolio of Non-Sovereign Operations in ADF countries, which currently stand at around a half of its total NSO portfolio, and also increased the share of investment in fragile situations, attaining 16% of the total NSO portfolio in ADF countries. However, the successful graduation of Cote d'Ivoire out of situation of fragility, where the Bank invested a significant share of its NSO portfolio to support stabilisation and emergence from the economic and political crisis, will mean that the Bank Group will need to leverage even further the existing and innovative instruments to increase or even maintain the current share of NSOs in fragile situations; this share falls to 8% when excluding Côte d'Ivoire. Further, Deputies took note that while the Bank Group will continue to scale up support to the private sector in the remaining ADF Countries, their share of the NSO portfolio will fall substantially on current trends with the pending full graduation of Nigeria to ADB-Only status.
- 4.58. Deputies supported ADF risk participation to leverage additional resources from the private sector and other co-financiers investing in strategic sectors in the ADF countries, especially those in transition from fragility situations. As a result, Deputies approved continued availability of the Fund's partial risk guarantee and partial credit guarantee under existing guidelines (including a common deduction of 25% of the country's PBA and the requirement of counterindemnity from the country's government) with a maximum combined exposure of UA 500 million.
- 4.59. Noting the high rates of utilisation of the Private Sector Credit Enhancement Facility (PSF) since its operationalisation, Deputies agreed to provide an additional UA 200 million to increase the total exposure capacity of the PSF over the course of ADF-14. The allocation will allow the PSF to maintain its current momentum in use of resources, which has led it to commit, in its first 18 months in operation, around two thirds of its exposure capacity, of which nearly half is in fragile situations. Deputies further welcomed the ongoing work to enhance the impact of the PSF beyond its pilot period, including stress-testing of the credit enhancement model and enhancing its leverage. Deputies noted that the lessons and recommendations emerging from the pilot phase of the PSF will be submitted to the ADF Board for consideration.
- 4.60. Deputies concurred, however, that the current suite of financial products of the Bank remains too limited to deliver full impact in fragile situations or reach the most underserved segments of the market, such as SMEs and women-headed businesses. While the ADF remains well placed to provide support to governance and business climate reforms through sovereign lending, further financial innovation is needed to allow the

Bank to crowd-in more private sector investment by taking on higher levels of risk, scaling up investment and decreasing the cost of finance in sectors with high development impacts. ADF risk participation instruments that are now available do not provide sufficient reduction to the cost of financing to compensate for unpriced externalities, other market failures and constraints.

#### *Prospective pipeline for ADF-14<sup>16</sup>*

4.61. Participants considered the projected total ADF-14 pipeline of 178 operations, estimated at UA 7.3 billion. This corresponds to the period 2017-2019, with operations responding directly to ADF countries' needs that are aligned with the Fund's strategic and operational priorities. The pipeline is a result of a filtering process that respects countries' development needs and exploits the areas of intervention where the Fund enjoys comparative advantage. With a pipeline of UA 8.2 billion, net resources available for commitment will not cover all the proposed activities, leaving a gap of about UA 4 billion worth of projects, part of which being financed through other Bank's financing instruments (e.g. ADB sovereign public financing, the NTF, trusts funds, etc.) and co-financing with other partners, including the private sector<sup>17</sup>. The pipeline is as follows:

- *Light up and Power Africa*: The Fund will invest approximately UA 930 million in the energy sector in ADF countries over the ADF-14 period. This will help install in due course up to 5,000 MW of power capacity, providing up to 10 million people with new or improved electricity connections and delivering health, education and employment outcomes. Emphasis will be placed on renewable sources with at least 35% of this amount targeting renewable energy projects.
- *Feed Africa*: The Fund will invest up to UA 667 million in the agriculture sector in ADF countries. Included in the pipeline are operations in various priority value chains across the continent. This will contribute to improved agriculture productivity, increased income and poverty reduction in rural areas for 4 million people through water management support to 103,000 additional hectares of land.
- *Industrialize Africa*: The Fund will support industry development operations in recipient countries estimated at over UA 815 million.<sup>18</sup> These include financial sector operations to increase access to capital and support enterprise development, as well as programs to facilitate effective and efficient trade across borders and provide greater access to domestic and regional markets, especially for SMEs.
- *Integrate Africa*: The Fund will invest in regional integration operations valued at UA 579 million (inclusive of other infrastructure projects) over the ADF period. These operations will support regional integration through hard infrastructure projects, such as roads and railways, transboundary water resources projects, and soft infrastructure projects. The Fund's support to soft infrastructure will include capacity building in RECS, promoting information and payment systems, harmonising investment and engineering codes, quality assurance and certification standards, changing the visa regime to assist the free movement of people, and supporting the implementation of WTO trade facilitation agreements. These interventions will provide over 23 million people with improved access to transport and over 8.5 million people with training in road maintenance and safety.
- *Improving the quality of life of Africans*: The Fund will deploy at least UA 477 million in an ambitious pipeline of projects to improve the quality of life of people. The projects will include investments in the water and sanitation sector, skills development programs and support to youth employment through internships and women entrepreneurship programs.

4.62. ADF-14 will also allocate some of its resources to the identified cross-cutting areas while seeking to crowd-in additional funds from other partners:

- *Governance*: The Fund will devote at least UA 721 million to governance-related interventions across the High-5 strategic areas, using a variety of instruments.
- *Climate change*: The pipeline for climate change operations in ADF countries over the ADF period represents approximately 35% of ADF commitments.

<sup>16</sup> The size of the replenishment will bearing on the Fund's capacity to address the financing demand from ADF countries and the related pipeline of projects. This impact will be properly assessed and reported at the ADF-14 Mid-Term Review.

<sup>17</sup> As of December 07, 2016, total net resource available for commitment under ADF-14 is UA 4.2 billion (see annex X).

<sup>18</sup> This number is also inclusive of projects that counted under the *Integrate Africa*, *Power and Light Africa*, and *Feed Africa* High-5s.

- *Gender:* The Bank has reformed its country gender profiles to provide better information for Country Strategy Papers and upstream sector analysis and lending operations. The gender profiles will also enable the Bank to document macro-economic and inclusive growth issues from a gender perspective. The Bank will pursue special initiatives, including the Affirmative Finance Action for Women (AFAWA) Program, an African-wide program to address access to finance challenges faced by women in business, specifically women entrepreneurs and women small-scale, commercial farmers.

## 5. Development effectiveness and managing for results

### *The Bank Group as a learning organization*

- 5.1. Participants agreed that to achieve its development goals the Bank Group needs to be a learning organization committed to improving its operations, values, systems and practices continuously. To address this challenge, the Bank is taking action at different levels. This will include the signature of performance contracts with each staff member where key performance indicators reflecting the importance of learning and proper supervision will be included. In turn, this will promote continuous improvement and support the achievement of the Bank Group's institutional goals, innovation and the ability to deal with change.
- 5.2. At the corporate level, Management is promoting an organization that values learning and provides the space and tools to enable it. For example, it will be launching the Task Manager's Academy with a view to certify task managers in the basic set of skills that are needed to implement effective operations. This includes developing logical frameworks that articulate a theory change at the project level, the design of new projects is informed by lessons of the past. For example, CSPs are informed by lessons of completed CSPs.

### *Managing, measuring and reporting on results*

- 5.3. Management presented ADF Deputies with a first draft of the sixth edition of the Bank Group's Results Measurement Framework (RMF). The new RMF aims to increase the Bank's impact on development and deliver lasting changes to the lives of the people of Africa. It does so by establishing a framework, the management tools and incentives aimed at promoting a performance-oriented management culture.
- 5.4. As a way of achieving this overarching goal, the new RMF has been designed to ensure the Bank delivers fully on five important objectives:
  - increasing the Bank's strategic focus on five of the Ten-Year Strategy's priority areas;
  - aligning performance on the Bank's new corporate priorities;
  - measuring the Bank's development impact;
  - leveraging the development impact of the private sector; and
  - increasing the Bank's focus on gender equality.
- 5.5. Deputies endorsed this approach and offered additional guidance on how the Bank could further strengthen the RMF and improve its uses for ADF-14. Participants agreed that the RMF should be used to guide reporting on the Bank's performance and development results in ADF countries.

### Increasing the Bank's strategic focus on the High 5 priorities of the Ten-Year Strategy

- 5.6. As the Bank scales up work under its Ten-Year Strategy in five priority areas, it has re-engineered the internal architecture of the RMF to match the Bank's corporate priorities and the recently adopted Development and Business Delivery Model (DBDM). Not only are these five priority areas central to the TYS, but they also are intrinsically linked to the SDGs and the global commitments on climate change. Figure 2 shows the key priorities at each of the four levels of the RMF.

**Figure 2: Aligning the RMF with the Bank Group's strategic priorities**



- 5.7. The novel approach in the architecture of this new RMF is that Level 1 and Level 2 are both fully aligned around the High 5s. This builds strong conceptual linkages between Africa's development challenges (Level 1) and the Bank's actions to address them (Level 2). It also makes it easier to analyse each field and report on progress.
- 5.8. Deputies welcomed that the new RMF identifies strategic indicators and targets for each of the High-5s and draws these from the strategies approved by the Board of Directors. Deputies noted, however, that over 120 indicators would be tracked across the four RMF levels and asked Management to decrease the number of indicators to strengthen the Bank's strategic focus. Management will propose a more limited set of indicators in the next RMF draft.

Aligning performance on the Bank's new corporate priorities.

- 5.9. The new RMF has been designed to focus on the Bank's new strategic priorities and to be a management tool to support the delivery and implementation of the DBDM. It tracks progress against the key performance drivers as set out in the DBDM.
- 5.10. *RMF Level 3 indicators: Quality of the Bank's portfolio.* At the end of 2015, the Bank's portfolio consisted of more than 800 ongoing operations valued at US\$32 billion. To maximise its development impact, the Bank will deliver a high-performing portfolio of operations that, as well as being well designed, are closely monitored so that the Bank detects and resolves any problems early on. Level 3 of the RMF tracks the quality of the Bank's portfolio of operations by monitoring progress on the key performance drivers set out in the DBDM, which are to increase the development impact of operations, design high-quality and timely operations and improve portfolio performance.
- 5.11. *RMF Level 4 indicators: Organisational efficiency.* The AfDB is a large and complex organisation, with around 2000 staff located in its headquarters and 34 field offices. To be increasingly effective, it needs to ensure that employees have the support they need to perform at their best and to attract and retain high-calibre staff through effective human resource management. It also needs to bring the Bank closer to its clients. Level 4 of the RMF tracks the Bank's organisational efficiency by monitoring progress on key indicators which are to: bring the Bank closer to its clients, enhance performance management, and reduce silo working and promote working together; drive income growth and leverage partnerships; and improve the Bank's value for money.



- 5.12. Deputies welcomed that the RMF metrics will be underpinned by strong business processes and management information systems that provide accurate and timely data. They welcome the alignment of incentives to corporate priorities and proactive portfolio management. This involves updating Bank's key performance Indicators (KPIs), making them leaner and better suited to tracking the contribution of each department to the High 5s and corporate priorities. Management will be invited to reflect regularly on performance challenges in priority areas, draw lessons, share best practices, discuss/brainstorm options and reach agreement on corrective measures. In other words, setting the right KPIs and monitoring performance against them is just the start of the process. What is key is the conversation on these performance issues to draw the lessons and agree on how to move forward.

#### Better measuring the Bank's development impact

- 5.13. The Bank is introducing a new methodology called the Development Impact Approach to allow the Bank to measure the number of direct and indirect jobs supported by its investments and the extent to which they contribute to economic growth.
- 5.14. The Development Impact Approach draws on a robust methodology that has been used by development finance organizations such as the International Finance Corporation, the United Kingdom's Commonwealth Development Corporation Group and the Dutch development bank FMO. It will allow the Bank to trace how ADF and Bank's investments flow through an economy and measures the corresponding development impacts. This will provide a deeper and more grounded analysis of the Bank's development impact, tracking where its investments go in support of employment and growth. Deputies welcomed this initiative as a way of providing fresh insights into the extent of ADF's impact on the continent.

#### Leveraging the development impact of the private sector

- 5.15. The private sector is one of Africa's key drivers of economic growth and job creation. In recent years, the Bank Group has invested an increasing share of its capital in the private sector, with a tenfold increase between 2005 and from US\$250 million to US\$2.2 billion. To improve leverage operations, the RMF will capture the development impact of the Bank's support to the private sector by revamping the approach it takes to track the development impact of its private sector operations. To this end, four initiatives are underway:
- *Clarify the logic of intervention of private sector operations.* A logical framework will be rolled out to capture the results of private sector projects more effectively. It will be streamlined to be used more intuitively by project teams, looking at a select set of outputs and outcomes. This framework will be used as a monitoring table throughout the life of the project.
  - *Inform project preparation with ex-ante data.* Project teams will keep the indicators used in the project's Additionality and Development Outcomes Assessment (ADOA) report as part of their own set of indicators to track project progress, and will provide information on the extent to which the ADOA assessment informed the design of the project. This will incentivise teams to use and benefit from the ADOA work.
  - *Track results during implementation.* The Bank will take a closer look at results achieved during implementation. Annual Supervision Reports will be revamped to capture development results more clearly, using the monitoring table prepared at approval stage.
  - *Provide clear results information at completion.* Private sector completion reports will provide the full extent of results achieved throughout the project life, using indicators from the monitoring table to allow for greater consistency and to facilitate reporting.

- 5.16. This new approach will contribute to learning and will help steer decisions based on actual results achieved. A cadre of private sector specialists from the Bank will be trained in the principles of results-based management and the use of its tools.

#### Increasing the Bank's focus on gender equality

- 5.17. Advancing gender equality is central to implementing the High 5s and to achieving the Ten-Year Strategy's goal of inclusive growth. The Bank's RMF is placing a renewed emphasis on tracking progress in reducing the gaps between men and women, in line with its 2014 gender strategy. It reports against the RMF indicators using sex-disaggregated indicators wherever applicable and feasible, and introduces gender-

sensitive indicators that measure gender-related changes. The new RMF strengthens its gender focus at all four levels:

- *Level 1:* the RMF includes new, more robust gender indicators to track progress in the High 5s so, for example, it includes an indicator that measures gender disparities in national labour markets;
- *Level 2:* to measure the impact of Bank operations on women and girls more accurately, Level 2 indicators are disaggregated by sex, especially those indicators that track the number of beneficiaries of operations;
- *Level 3:* to integrate gender dimensions into project design, which is fundamentally important for closing gender disparities. the RMF systematically tracks progress in mainstreaming gender dimensions in public sector operations and country strategy papers;
- *Level 4:* to ensure gender equality in its workforce, for which the Bank recognises its special responsibility, the new RMF has set ambitious targets for the share of women among professional staff and management.

5.18. The introduction of a new Gender Marker System (GMS) will help the Bank further mainstream gender into all operations. The GMS will reorganise the existing mainstreaming practices into a set of systematic procedures applicable to all projects. Projects will be classified into four categories, with specific requirements for each category. The GMS will also shift the attention of gender mainstreaming from a “project design focus” to a “project development outcome/results focus”. The Bank will provide clear guidelines on when and how to integrate gender into operations, along with tools, manuals, checklists and training.

#### Strengthening the Bank’s accountability on ADF resources

5.19. To achieve the ambitious goals set out in the High 5s, the Bank must be a learning organisation committed to improving its operations and increasing its development impact. To capture the Bank’s contributions to Africa’s development across its many dimensions, the Bank publishes its performance against the RMF in the Annual Development Effectiveness Review (ADER). The ADER reports on progress on all the indicators in the four levels of the RMF. It appraises development trends across the continent and gauges the part played by the Bank. It also looks at how effectively the Bank manages its operations and the organization.

5.20. The Bank uses a Scorecard, which consists of data that are updated regularly to track key performance drivers and impact, to measure changes against baselines and assesses whether the Bank is on track to meet its targets.

5.21. Deputies welcomed the Bank’s continuous assessment and learning effort to publish its performance against the RMF in the ADER. In response to questions raised by ADF Deputies, Management noted that the ADER will report on the Bank’s performance and development results in ADF countries. This reporting exercise is part of a greater effort conducted to collect and disseminate lessons learned to feed into operations design and delivery.

#### Effectiveness and results delivery capacity

##### Moving much closer to clients to enhance delivery

5.22. The Bank Group will continue to leverage its unique role as a trusted partner on the continent, to deepen its achievements and development results. The new Development and Business Delivery Model (DBDM) and the Updated Decentralization Action Plan approved by the Board of Directors in April 2016 and June 2016, respectively, will ensure delivery of the strategic direction outlined in the ADF-14 Deputies Report. There is strong evidence that decentralisation has contributed to development effectiveness, enhanced dialogue and improved relationships with all stakeholders in the regions and in regional member countries. The analysis of the two pilot regional resource centres has shown that they are an effective platform for delivering services to the Bank’s clients at the country and regional level in a cost-effective manner. However, the Bank Group has identified some challenges, which are being addressed in the rollout of the DBDM.

- 5.23. Participants welcomed Management's plans to reinforce regional as well as country operations during the ADF-14 cycle. The on-going reforms will result in the establishment of strong regional capabilities by transferring relevant business delivery functions (including disbursement, legal and procurement) from Headquarters to the regional hubs. These will be headed by Directors General (DGs), who are expected to be appointed by December 2016. The Eastern, Southern and North Africa regional hubs will leverage the existing Bank facilities in Nairobi, Pretoria and Tunis and be operational in the first quarter of 2017, while the Central and West Africa hubs will be established in 2017. Leadership at the regional level will be reinforced by the revised Delegation of Authority Matrices that will enable effective and efficient service delivery to the Bank's clients. These hubs will host a critical mass of professionals and support staff and oversee a combination of country and liaison offices, as well as countries without a Bank presence. The coordination of the regional hubs and the overall supervision of the Bank's decentralization program will be under the authority of the Vice President, Regional Development, Integration and Business Delivery (RDIBD) Complex.
- 5.24. The move to regional hubs will enable more shared services across countries in each region and, consequently, more efficient country offices. The majority of these offices will be in ADF-eligible countries, especially those in fragile situations. More senior sector-level staff with appropriate delegated authority, as well as task managers, will be posted to the hubs, to help drive the overall business of the Bank effectively and so enable it to better leverage ADF resources. All staff assignments, both existing and new, to the hubs and country offices will be determined by the business requirements. The implementation of the Bank's decentralisation agenda under the new DBDM will take into consideration the special requirements of countries in fragile situations, building on the progress made in implementing the 2014-2019 Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa. This will result in strengthened operational effectiveness in fragile situations due to more structured support. The regional hubs will also foster increased regional integration in collaboration with the Regional Economic Communities.

#### Reconfiguring the Headquarters' role to deliver better outcomes

- 5.25. Noting the adoption by the Bank of the DBDM, Participants welcomed Management's plans to transform the role of Headquarters (HQ). The HQ will move from day-to-day project and portfolio administration and management of the lending program to focus more on providing oversight, setting common policies, developing guidelines for regulations, harmonisation of practices, ensuring quality control and assurance, and maintaining the Bank Group's brand across the different regions.
- 5.26. The adjustments to the Bank's organisational structure, which are aimed at making the Bank nimbler and more effective in delivering services to its clients, include setting up the RDIBD Complex, Sector Complexes and the Economic Governance and Knowledge Management (ECON) Complex. Sector complexes will be based at Headquarters and be responsible for strategy, oversight, policy, and the harmonisation and branding functions. The other Headquarters-based complexes, namely the Human Resources and Corporate Services, Finance, and ECON, will develop different working relations with the RDIBD Complex as decentralisation proceeds, to ensure full support of operations under each regional hub. For example, the consolidation of the work on economic governance and knowledge management under the complex headed by the Chief Economist, coupled with the proposals for further decentralisation, will enhance the quality of economic and sector work and ensure better linkages between global and regional good practices.
- 5.27. The Bank Group has taken an important step to ensure that it has a strong centre that will provide effective support to the full decentralisation of the Bank's operations. It is expected that the reconfiguration of the centre will enable the establishment of effective systems to monitor activities and programs in Regional Member Countries. Furthermore, the centre will ensure that activities in the five regions are fully aligned with existing policies, practices, and procedures in order to minimise the risk of regional hubs isolation and eliminate the risk of 'mini-Banks' emerging in the future. Management tracks the speed, the timeliness, and implementation capacity in addition to other input and output indicators. Tools used include KPIs, at the corporate, complex and individual levels, a monthly executive dashboard, a Results Measurement Framework tracked annually, and quarterly monitoring report that goes to the Board.



#### Strengthening performance culture

- 5.28. The success of the new DBDM can only be realised with complementary changes in the management of the Bank's most important resource, its human resources. To strengthen the Bank's accountabilities towards an enhanced performance culture, the Vice Presidency, Corporate services has been transformed into the Vice Presidency, Human Resources and Corporate Services. The Bank will fine-tune core and technical competences that will guide all staff engagement processes, from selection, recruitment, on-the-job delivery, performance evaluations, career advancement and capacity development. These competencies will be complemented by adjusted Key Performance Indicators focused on development impact, approvals, disbursement and cost management.
- 5.29. The ability to attract talent and motivate staff has been enhanced with the recent approval of revised salary grades for internationally and locally recruited staff at Headquarters. Other elements of the total compensation system (e.g. retirement benefits) are being reviewed to assure the right balance between long-term financial sustainability and the objective to continue to attract and retain the best staff.
- 5.30. The drive to refresh the Bank Group's people and performance management processes and systems includes initiatives to enhance delivery accountabilities for achieving the Bank Strategy and High 5 priority goals. At root, the institutional transformation is underpinned by a culture change focused on further empowering staff and consolidating the results-based culture. Staff will have greater accountability for client results, and for innovation and creativity. New performance contracts have been signed with Vice Presidents and will soon be cascaded to Directors, Managers and staff, with clear responsibilities and identified Key Performance Indicators (KPIs).
- 5.31. Participants welcomed Management's plans to continue administering Staff Engagement Indices (SEI) and staff surveys on a regular basis, to monitor staff perceptions as well as to promote greater engagement. Appropriate interventions will be deployed to ensure that the SEI contributes to enhanced customer service delivery. These actions are critical for a paradigm shift towards improved performance culture, as new measures are simultaneously being adopted to ensure the institutional arrangements support this transformation. As such, these initiatives will dovetail with the enhancements of the compensation system, reinforcing the Bank Group's ability to attract new talent while motivating and retaining existing high calibre staff.
- 5.32. Opportunities for learning are a key component in achieving both staff retention and greater performance against objectives. A dedicated learning pack will be developed to match staff competencies with the theoretical and technical requisites of the five key priority areas of the Development and Business Delivery Model.
- 5.33. Deputies noted that the Transformation Management Team, the senior body chaired by the Senior Vice President, is fully functioning and is driving the process of change. In addition, there has been significant progress in recruiting the top leadership team, with all the Vice President positions now filled. Following the arrivals of the Vice President for Human Resources and Corporate Services and the Director of Human Resources, recruitment and talent placement activities needed for the successful implementation of the DBDM have been stepped up.
- 5.34. Finally, Management is also developing a new People Strategy to be launched in June 2017 whose aim is to fine-tune the human resource value chain. In particular, the new strategy will seek to improve the employee experience focusing on leadership, talent, performance management, learning development and career pathing.

#### Bolstering business processes to promote efficiency, effectiveness and responsiveness

- 5.35. The restructuring will make the Bank fit for purpose and the DBDM will enable effective and efficient implementation of the Bank Strategy and High 5 priorities embodied within the ADF-14 Strategic Directions. The DBDM will ensure the Bank is well positioned both to meet the development demands of its Regional Member Countries and to reverse the declining trend in net income by generating more revenue. Management will ensure that the complexes operate as one Bank and pursue a unified approach to all operations, including for disbursement and procurement.

- 5.36. Participants noted that Management was committed to revising the Delegation of Authority Matrices (DAM) in order to clarify roles as well as enhance the overall effectiveness of the Bank on the ground by the end of 2016. The objective is to improve service delivery by increasing responsiveness and client orientation and shortening the project cycle without diluting its rigorous fiduciary standards. Many processes require significant work to ensure they become as efficient and effective as possible, but the three top priorities are the project cycle, project procurement, and recruitment.
- 5.37. The Bank's DAM is being revised further, in the context of the DBDM, to instill a culture of management for results, and introduce an accurate measure of performance to strengthen accountabilities throughout the project life cycle. The greater delegated authority will also reinforce the management for results culture by introducing better delineated measures of performance to strengthen accountability. Through these reforms, decisions will be made more rapidly and closer to the clients as the need for consulting with Headquarters will be significantly reduced. An enhanced capacity to deliver results at the regional and country level should also facilitate a shortened project cycle from Board approval to first disbursement.
- 5.38. In addition, Participants noted that Management is taking decisive actions to strengthen the implementation and management of Bank projects. A Presidential Directive concerning the Design, Implementation and Cancellation of Bank Group Sovereign Operations was issued in the last quarter of 2015 to address perceived challenges in these areas, and to accelerate project disbursement. The Directive is generating momentum for enhanced quality at entry and accelerated delivery, and already showing positive results with reduced lead time for signature and 1<sup>st</sup> disbursement. Through the Portfolio Flashlight Reports, Management monitors the health of the portfolio, tracks its performance trajectory and is given early warning on areas that need attention. Also, through the monthly Executive Dashboard, Management is kept informed of corporate and operations Key Performance Indicators that are lagging behind target.
- 5.39. Management will reinvigorate the mandate of the new regional hubs to identify delays and to address issues relating to projects-at-risk. Management is continuously seeking ways to speed up execution while maintaining high standards of quality at entry, quality at implementation and quality at exit, institutional effectiveness, transparency and accountability, with the aim of significantly reducing the processing time across each of the Bank's key processes. The new Delivery Accountability and Process Efficiency Committee (DAPEC), comprised of Directors, Managers and Task Managers, will oversee the revision of the Bank Group's business processes in order to improve the quality of services to clients.
- 5.40. Management is also undertaking a range of actions aimed at simplifying the development, review and clearance process of country strategies and operations. This includes developing the new Country Strategy Paper (CSP) Framework, streamlining the Project Development Process and revamping the Bank-Wide Program Processing Schedule (BPPS) system to enhance operational efficiency.
- 5.41. The new streamlined Project Development Process, which will improve portfolio performance, was presented to the Board's Committee on Development Effectiveness (CODE) in September 2016. The targeted process improvements entail the following: an enhanced country approach and ownership through partnerships; assistance to clients on a sliding scale of advice, technical assistance and oversight; due diligence assessments of clients' proposals and related tools to accelerate implementation of investment programs; and enhanced dialogue between the Bank and clients throughout the project development and implementation process.
- 5.42. The Bank Group's budget over the ADF-14 period will be formulated to achieve development effectiveness, improve institutional performance and strengthen the financial capacity of the Bank Group, in line with the new DBDM. The key cost drivers over the period will include support to operations to increase the quality of the Bank's lending portfolio and accelerate project implementation, delivery of the DBDM and change management, programs and initiatives emerging from the High 5 priorities, and the cost of operating from Côte d'Ivoire where the cost of living is higher than in Tunis. The capital budget will be driven by the activities related to occupational health and safety standards, studies on energy efficiency, and efforts to strengthen IT capacity and digitalisation of business processes especially in the context of enhanced decentralisation. The Bank Group will proactively monitor a targeted category of expenses to ensure value for money and intensify cost savings and efficiency measures. Management will also implement and monitor efficiency related Key Performance Indicators at all levels in the Bank's new structure, to ensure optimal use of resources and to strengthen accountability for achieving efficiency and

results. The cost of the organisational restructuring exercise will be spread over three years, to reduce the burden on annual budgets.

- 5.43. The Procurement Policy Framework approved by the Board of Directors in October 2015 highlights a combined fiduciary and developmental vision, which is currently being executed by the Procurement and Fiduciary Services Department (ORPF). Over the years, the procurement and financial management have made a slow but perceptible shift from mechanical, rule-based and fiduciary-centric activities to those contributing to building institutions in borrower countries.
- 5.44. The Bank Group's roll out of this new procurement policy will ensure increased country focus, accountability and reduce project delays to enable them achieve optimal value-for-money. Notably, the framework builds upon fiduciary obligations because sound and well-performing procurement systems at a country, sub-national, or agency level enable the best fiduciary assurance for economic, efficient, effective and equitable use of its resources.
- 5.45. The Procurement Policy Framework also provides a platform for considering both the quality and depth of fiduciary assurance provided by borrowers. The new policy looks not only to minimise the misuse of Bank funds, which continues to remain of paramount importance, but also to maximise the use of the procurement cycle as a means to increasing development effectiveness in RMCs. However, this requires a considered and calibrated approach to risk management as part of the necessary trade-off between process and results.
- 5.46. In line with the new policy, assessment of country systems including oversight institutions is being undertaken against globally accepted benchmarks. Almost 20 assessments of country procurement systems have been completed, often with other donors, and various market studies are being carried out. Where needed, assistance is provided to strengthen country procurement systems. Management acknowledges that this "building-by-using" approach will enable a dynamic and country-led incremental procurement reform program. The Bank Group is also actively participating in the revision of the Methodology for Assessing Procurement Systems (MAPS).
- 5.47. In addition, an improved version of the Operations Procurement Manual is underway. Significant capacity building activities have taken place, training materials related to the new policy have been developed and over 40 modules of training are ready. Management is also proceeding with the revision of the Bank Group's standard bidding documents as well as developing various guidance notes on the recently adopted procurement reforms.
- 5.48. Participants agreed that increased transparency is a critical component of the Bank Group's new delivery model. The Bank's practices on Disclosure of Information are based on its May 2012 policy: "Disclosure and Access to Information: Developing Africa Openly and Transparently: The Policy". The policy sets out the types of documents and information that are public or restricted, including those applicable to procurement.
- 5.49. One important element that has been introduced under the new policy is greater disclosure on beneficial ownership of firms winning public contracts. To operationalise this, Management has recently developed a guidance note guided primarily by the report of the Financial Action Task Force (FATF) and other relevant initiatives, including the Extractive Industries Transparency Initiative. Management is also engaging with Transparency International on initiatives including on beneficial ownership, stand-still period and a variety of other issues.
- 5.50. The new procurement policy strongly encourages the use of Electronic Government Procurement (e-GP), which is procurement of goods, works and services through an information technologies (IT)-based platform. This is emerging worldwide with the potential to drive procurement reform, increase competition and promote integrity in public procurement.
- 5.51. In conclusion, the Bank Group is fully supporting the efforts of RMCs to strengthen their public procurement systems based on the principles of transparency, open and fair competition, equal access, and non-discrimination.
- 5.52. Management has also put in place the necessary policies, processes and procedures for the prevention of fraud and corruption in all Bank Group-financed operations and activities. The investigative and independent sanction processes further ensures that allegations of sanctionable practices as well as

allegations of staff misconduct are thoroughly investigated and are sanctioned either through the Bank Group's sanctions processes or through the Bank's internal disciplinary process. Furthermore entities that are sanctioned are obligated to establish effective Integrity Compliance Programs (ICPs) or strengthen their existing programs in accordance with the Bank Group's standards before these entities are taken off the debarment list and can participate in bidding for Bank's projects. The Bank Group's Integrity Due Diligence Process reinforces the principle of enhancing transparency and openness in Bank operations to ensure the full disclosure of information on counterparties thereby limiting the misuse of bank funds for criminal and illicit activities such as fraud, corruption, anti-money laundering, terrorist financing, trafficking and other offenses.

- 5.53. Participants appreciated Management's use of Bank Group projects and programs for improving transparency in the countries it operates in. It is a member of the Strategic Review Advisory panel of the Construction Sector Transparency Initiative (CoST), a global initiative which Management will support in countries in Africa. The Bank Group is also an active member of the OECD coordinated initiative on developing a Methodology for Assessment of Procurement Systems in countries, which is pushing for appropriate indices for transparency. Consistent with the new model, the Bank Group is working with partner countries in improving Borrower Procurement Systems. The Bank Group is also ensuring that all capacity building training initiatives organized by the Bank Group include suitable modules on transparency.
- 5.54. Management shared with Deputies plans to streamline the Bank Group's corporate services business processes through end-to-end automation of the corporate procurement processes, through roll-out of the SAP Supplier Relationship Management e-procurement module. Furthermore, the Bank Group will implement a cost-effective and environmentally sustainable office workplace by reducing waste, energy efficient installations, raising employees' environmental awareness, and other activities aimed at improving environment-friendly best practices.
- 5.55. Appropriate improvements in technology will continue to be implemented by Management to ensure that staff work in an environment that will enable enhanced performance. The Bank Group's last IT Strategy has guided the implementation of a scaled and resilient ICT network that is anchored by world class data centres (established in Abidjan, Pretoria and Tunis) which enabled an accelerated decentralisation of operations. Management is now elaborating a new IT Strategy that is expected to be in place by the end of March 2017. This strategy will build on the established foundation to be firmly aligned with the Bank Group's current business priorities, namely: (i) launching and scaling up the High 5s; (ii) reversing the slide in operating profits; and (iii) re-structuring its business delivery model to support these two priorities. To effectively support the various business priorities, the new IT Strategy will place a particular emphasis on mobility and digitalisation to drive organisational efficiency.
- 5.56. Participants agreed that none of these institutional changes should weaken the Bank Group's corporate safeguard and related measures.

#### *Coordination, harmonisation and partnerships*

- 5.57. Participants agreed that the effectiveness of the ADF is determined by its institutional relationships with partner governments and other donors, as well as by the Bank Group's own internal rules and culture. Participants emphasized the need for the Bank Group to continue strengthening and improving its interaction and collaboration with key development partners in order to align better to ADF recipient countries' priorities, systems and procedures.
- 5.58. Management will coordinate in a transparent manner and will minimise unnecessary transaction costs for partner countries. Likewise, the Bank Group's internal rules and culture should encourage staff to behave collaboratively and as flexibly as possible. In particular:
  - *At the Strategic Level:* The Bank Group will strengthen its partnerships with the main multilateral organisations, notably, with the International Monetary Fund (IMF), the International Development Association (IDA) of the World Bank Group, and with key bilateral donors and will define areas of cooperation, complementarity, joint work, sharing of knowledge and information;

- *At the Sector Level:* The Bank Group will increase its joint working with selected development partners around a limited set of sectors and will intensify efforts to ensure joint products and fully effective harmonisation, whenever possible;
- *At the Regional Level:* The Bank Group will continue to review in a systematic way its long-standing Memoranda of Understandings (MOUs) to assess their continued applicability, and will conclude new MOUs or strategic partnership arrangements which provide specific joint action plans, focused areas of cooperation, and sharing of information and knowledge;
- *At the Country Level:* Greater country presence will allow the Bank Group to play a more active and constructive role in the donor community under ADF recipient country leadership, to improve donor partnership, coordination and complementarity, and better define the priorities, follow up actions and division of labour between donors best suited to the development strategy of each country; and
- *At the Project Level:* The Bank Group will increase its role as a catalyst of other sources of finance, seeking to leverage scarce ADF funds.

5.59. All new or revised partnerships will follow the principles of the Paris Declaration on Aid Effectiveness, notably harmonisation of procedures and instruments, selectivity of partners and collaboration based on comparative advantage, and results management for maximum impact on poverty reduction. Partnerships will put emphasis on strengthening the coordination and harmonisation mechanisms which are crucial for greater aid effectiveness.

## **6. ADF-14 country eligibility, resource allocation, financing and instruments**

### *Country eligibility*

- 6.1. Deputies agreed that ADF resources will continue to be allocated to eligible countries. Eligibility criteria, country grouping and differentiated lending terms remain the same as for ADF-13. Based on their GNI per capita, non-gap ADF-only countries are divided into two subgroups: regular and advance. Under ADF-14, the differentiated lending terms will continue to be applied on ADF loans allocated to regular and advance ADF-only countries, as well as to blend, gap and graduating countries.
- 6.2. While Annex II details the rules applied for country classification in the Bank Group and elaborates the projected graduation trajectory of ADF countries under ADF-14, Table 1 below recalls the differentiated ADF loan-financing terms introduced in ADF-13.

**Table 1: Differentiated ADF Loan-Financing Terms**

	ADF-Only		Blend, Gap and Graduating
Lending Terms	Regular	Advance	Blend
Maturity (Years)	40	40	30
Grace Period (Years)	10	5	5
First Period (Years)	10	—	—
Amortization Rate (%)	2.0	2.9	4.0
Second Period (Years)	20	—	—
Amortization Rate (%)	4.0	2.9	4.0
Service Charge (%)	0.75	0.75	0.75
Commitment Fee (%)	0.50	0.50	0.50
Interest Rate (%)	0	0	1
<b>Concessionalty (%)</b>	<b>61</b>	<b>51</b>	<b>35</b>

***Performance-Based Allocations (PBA)***

- 6.3. Deputies agreed to maintain unchanged the existing PBA system under ADF-14 and affirmed that country performance and needs will continue to drive the ADF-14 resource allocation system and, as in previous cycles, the PBA will remain its bedrock component. At least 90% of ADF-14 resources will be allocated to countries based on their performance through direct PBAs (57%) and PBA-linked set-asides (33%), which includes the pillar I (supplemental support) of the Transition Support Facility (TSF) and the cost-shared regional operations.
- 6.4. Annex III provides a detailed presentation of the PBA framework to determine country allocations under ADF-14, as synthesised below:
- Available resources will be allocated annually using the PBA formula, on the basis of two building blocks: needs and performance. Needs reflect: Gross National Income per capita (GNIPC); Population (Pop); and infrastructure gap as measured by the Africa Infrastructure Development Index (AIDI). Performance reflects the Country Performance Assessment (CPA), which is mainly based on the cluster scores (A, B, C, D, and E) of the Country Policy and Institutional Assessment (CPIA) and the Portfolio Performance Assessment (PPA).
  - A blend country will receive 50% of what it would have received if it were classified ADF-only.
  - For all countries, individual allocations should not exceed 10% of the PBA envelope available.
  - A minimum allocation of UA 5 million per year (UA 15 million per cycle) will be applied for all countries, with the exception of countries in transition to blend or ADB-only credit status.

***Application of the Debt Sustainability framework and grant financing***

- 6.5. Deputies agreed that the share of grants in individual PBA will continue to be determined by the annual Debt Sustainability Analyses (DSA) under ADF-14. In addition, the PBA system will maintain the Modified Volume Approach (MVA), under which a 20% discount is applied to each PBA grant allocation. However, this discount will comprise a 6.67% incentive-related portion and a 13.33% charge-related portion.<sup>19</sup> PBAs of countries eligible to the pillar I of the TSF are subject only to the charges-related volume discount.

***Multilateral Debt Relief Initiative Netting Out***

- 6.6. As previously agreed, the forgone debt service payments of countries that qualify for debt relief under the Multilateral Debt Relief Initiative (MDRI) will be deducted from these countries' allocations using the

<sup>19</sup> During ADF-13, the incentive-related portion was at 5.0% and the charge-related portion was at 15.0%.

MDRI netting-out mechanism. The PBA system will be used to reallocate the resources provided by donors to compensate the ADF for the MDRI, to all ADF-only countries.

#### Country Policy and Institutional Assessment

- 6.7. Deputies endorsed Management's proposed changes in the frequency of the CPIA assessment process, from annual to biennial, for transactional efficiency.<sup>20</sup> Given the time-lag between enactment of institutional reforms and their effective implementation, this shift will improve the assessment of ADF countries' progresses in these areas. It will also allow sufficient time to learn from each evaluation and inform policy dialogue. This notwithstanding, where country circumstances require it, the Bank Group may undertake more frequent assessments of specific countries in addition to the regular biennial exercise.
- 6.8. Within the CPIA exercise, Deputies agreed that the PBA computation will remain annual and would use the latest CPIA scores available.

#### Special Resource Allocations

##### Regional Operations (RO)

- 6.9. While Deputies strongly support regional operations, they agreed to maintain the regional operations envelope at 21% of the ADF-14 resources available for allocations. To enable ADF to increase co-financing and leverage additional resources towards regional projects, Deputies endorsed Management's proposal to reduce the leveraging ceiling for computing the contribution of the RO envelope relative to the PBA contribution to a maximum ratio of 1:1, with an exceptional maximum ratio of 1:1.5 to countries eligible for TSF Pillar I resources. Thus, countries eligible for Pillar I of the TSF, will be requested to contribute at least 40% of the ADF's contribution to the project cost from their PBAs as well as their TSF Pillar I allocations. On the other hand, countries that are not-eligible to TSF Pillar I will be requested to contribute at least 50% from their respective PBAs.
- 6.10. Countries with small allocation (a PBA of UA 15 million per cycle and/or a TSF Pillar I of UA 15 million per cycle) will continue to be required to contribute at least 40% of the ADF's contribution to project cost up to 10% of their allocation for each regional operation.

##### Transition Support Facility

- 6.11. Participants recognized the successes achieved through the Fund's Transition Support Facility (TSF) and other resource allocation mechanisms in supporting recipient countries facing situations of fragility, including through a regional approach.
- 6.12. Participants recognized the Bank's views that continuing need for traditional concessional finance for this set of countries during ADF-14 and highlighted the need to build effective and legitimate institutions and to support reforms to improve the business environment and facilitate private investments.
- 6.13. Deputies endorsed Management's proposal to increase the unallocated Pillar I reserve from 10% to 15% under ADF-14 and increase the minimum individual Pillar I allocation from UA 10 million to UA 15 million. It was also agreed to maintain the same computation methodology adopted for Pillar I country allocations under ADF-13 (see Annex IV).
- 6.14. Management updated Deputies on the progress on the discussions on Zimbabwe's arrears clearance, which the Bank Group is coordinating with the Bretton Woods institutions. The ADF will continue providing support for arrears clearance in potentially eligible countries (Somalia, Sudan and Zimbabwe). To enable the fund to clear the Somalia's arrears to the AfDB, Deputies endorsed Management's proposal to allocate UA 20 million from ADF-14 resources to Pillar II of the TSF. In addition, Participants agreed to carry-over any unused ADF-13 Pillar II resources into ADF-14.
- 6.15. Should Sudan make progress towards arrears clearance under an internationally coordinated programme during this period, Management will explore all options to mobilize funding for clearing the country's arrears to the AfDB.

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<sup>20</sup> This proposal is in line with the recommendations of the last PBA Working Group held in June 2016 in Lusaka, Zambia, where participants representing different MDBs/IFIs agreed that the CPIA exercise should be conducted on a biennial basis to better reflect the change in the policy and institutional environment.



- 6.16. Deputies agreed to allocate UA 60 million to Pillar III of the facility – to build institutional capacity - under ADF-14. They endorsed Management’s proposal to use this window to support private sector development in eligible countries affected by fragile situations, including strengthening the capacity of national investment promotion agencies to attract private investments, thereby creating important synergies across the various financing instruments of the Bank Group.
- 6.17. Participants agreed to allocate UA 711.15 million to the TSF under ADF-14, with UA 631.15 million to Pillar I (supplemental support window), UA 20 million to Pillar II (arrears clearance window) and UA 60 million to Pillar III (targeted support window). The utilisation of all TSF resources, including possible reallocation of resources among the three pillars, will be examined at the ADF-14 Mid-Term Review. The use of Pillar I resources will be guided by the priorities agreed with the country and in line with the applicable country programming documents (country briefs, interim CSPs or full CSPs). Pillar I resources can be used to support all programmes and projects, including ROs and government participation in private sector operations, and use any of the Bank Group’s financing instruments available to ADF countries.

#### Private Sector Credit Enhancement Facility

- 6.18. Deputies expressed their support for the Private Sector Credit Enhancement Facility (PSF) and agreed that the Facility should be used to better reach under-served segments through Non-Sovereign Operations over the next cycle and thereby enhance its impact beyond that of the ADF-13 pilot period. Deputies noted the PSF’ significant take-up and agreed on the need to augment the financial capacity of the Facility. They endorsed Management’s proposal to allocate an additional contribution of UA 200 million to the TSF from ADF-14 resources.

#### *Reallocation of Unused Resources*

- 6.19. Where unused PBA resources are allocated to nonperforming countries with no prospects of utilisation during the cycle, they may be returned to the PBA pool for reallocation to all other countries through the PBA process in the third year of ADF-14. Alternatively, in case of need, Management may present to the Board a proposal to reallocate these resources to Pillar II window of the TSF. The decision on the disposition of unused TSF resources will be made by Deputies in the context of the ADF-14 Mid-Term Review.
- 6.20. On the disposition of unused ADF-13 resources, Deputies agreed that the balance of unused TSF Pillars I, II and III resources at the end of the cycle will be carried over to the ADF-14 within the same pillar, and that any unused ADF-13 PBA and Regional Operations resources will be carried over to the ADF-14 and folded into the allocable pool of ADF-14 PBA resources.

#### *Resource Allocation by End Use*

- 6.21. All available ADF-14 resources, including internally generated resources, AfDB net income transfers approved by the Board of Governors and any additional funds, will be allocated as follows, after deducting technical contingencies:
- 21% of allocable ADF-14 resources will be channelled to countries through the RO envelope.
  - An envelope of UA 711.15 million will be allocated to countries through the three pillars of the TSF.
  - A contribution of UA 200 million from ADF-14 will be made available to the PSF.
  - The remaining resources will be allocated through the PBA system.
- 6.22. Overall, 57% of resources will be allocated directly through the PBA and 33% will be linked to PBAs. As per the previous cycle, ROs will be linked to PBAs by the cost-sharing mechanism and selected through the performance-oriented prioritisation framework. Similarly, resources of the TSF Pillar I will be linked to PBAs. The largest proportion of the resources will be allocated to ADF-only (including gap) countries. Resources for Blend and graduating countries will be determined by country-specific caps.



## *Financing Instruments*

- 6.23. Deputies agreed that ADF-14 resources will be channelled through a mix of financing instruments suited to the needs and capacities of ADF-eligible countries in line with the Bank's Group strategy and operational priorities. This mix aims at creating relevant synergies between ADF and ADB instruments.
- *Project and Programme Loans and Grants*: These instruments comprise project and programme loans and grants, including multinational projects, sector investments, lines of credit, and sovereign equity participation in public-private partnerships. Project investments through loans and grants will continue to be the primary vehicle for Fund support in ADF-14.
  - *Policy-Based Operations*: As for the previous ADF cycles, PBOs will continue to serve as an important instrument for channelling ADF resources to governance operations that help countries implement reform programmes, build capacity, strengthen institutions, and increase spending on poverty reduction priorities. While, resources provided through PBOs will be capped at 25% of the overall PBA envelope.
  - *Partial Risk Guarantees*: PRGs will continue to be used to leverage private sector financing and other co-financiers for ADF countries, including countries in fragility situations. It also aims at incentivising governments to undertake the policy and fiscal reforms necessary to mitigate political risks. For each guarantee issued, 25% of the face value of guaranteed amount will be deducted from the beneficiary country's PBA.
  - *Partial Credit Guarantees*: Introduced under ADF-13, the Fund will continue to support its eligible countries assessed as at low and moderate risk of debt distress in their efforts to crowd-in commercial resources on favourable terms. The instrument will be available for use by State Owned Enterprises (SOEs), sub-sovereigns and national treasuries to help mobilise domestic and external commercial financing, and thereby improve access to more affordable financing.
  - *Private Sector Facility*: ADF-14 will continue supporting private financing for the benefits of its clients through the PSF. The instrument will remain as a risk participation vehicle, participating in the credit default risk of the ADB's non-sovereign guaranteed operations, to increase the ADB's non-sovereign portfolio in ADF eligible countries over and above the ADB's own balance sheet capacities.

## **7. ADF-14 Replenishment Framework**

### *Compensation for debt relief and grant financing*

- 7.1. Compensation for Multilateral Debt Relief (MDRI). Donors agreed to compensate the ADF for forgone principal reflows from loans cancelled under the MDRI on a dollar-for-dollar basis, using the pay-as-you-go approach, and to preserve the level of the Advance Commitment Capacity (ACC) in future replenishments by making commitments over a rolling 13-year window to match the disbursements of future ADF replenishments. The MDRI coverage ratio is the weighted average of qualified and unqualified commitments received from donors to cover their share of MDRI costs over the relevant ADF disbursement period. Unqualified commitments are factored at 100% and qualified commitments are factored at 90%. The 10% discount on qualified commitments reflects uncertainty in the timeliness of payments. Deputies noted that unqualified commitments and timely payment are essential for preserving the integrity of the ACC, and that over-commitment because of delayed payments negatively impacts the Fund's liquidity and the ACC of future replenishments.
- 7.2. The ADF-14 ACC model assumes that 88 % of MDRI payments expected each year will be received on time while 10 % will be received with a delay of one year. The remaining 2% is not expected to be received from donors.
- 7.3. Compensation for Grants. Deputies agreed to maintain the grant compensation framework as it is applied from ADF-9. Indeed, the Fund has been using the Modified Volume Approach on grants to address the costs related to increased grant financing, and to protect the Fund's financial integrity. Specifically, income that is foregone due to grants is compensated by an upfront charge on grants, while foregone principal reflows above 7.5% of the replenishment amount are offset as they arise during future replenishments using the "pay-as-you-go" approach.

- 7.4. In accord with the modified volume approach, the grant allocation of a country is reduced by 20% (modified volume discount). Part of the volume discount is used to compensate the Fund for forgone income through an upfront grant charge, and the remaining amount is allocated to ADF-only countries using the PBA system. The upfront grant charge for the ADF-14 is set at 13.33%.
- 7.5. This upfront grant charge was computed based on the assumption that the overall grant level for the three years of the ADF-14 replenishment would be equal to the level established under ADF-13, i.e., 36.44%. The actual amount of grants allocated under the ADF-14 will depend on the annual Debt Sustainability Analyses.
- 7.6. The total grant amount expected to be compensated for during ADF-14 replenishment period is UA 49.55 million.
- 7.7. At the request of Deputies and similarly to compensation received under the Multilateral Debt Relief Initiative (MDRI), Management has agreed to consider the cumulative compensation for grants received from donors in the computation of the ADF voting rights. The voting rights will be allocated when ADF-14 is adopted by the Board of Governors.
- 7.8. The introduction of innovative financing instruments amounting to UA 180.1 million and UA 510.7 million of Concessional Donor Loans (CDLs) and Bridge Loans (BLs) respectively in the ADF-14 financing framework would increase the amount of grants approved in the ADF-14 by UA 276 million with the corresponding compensation being due from donors on a pay-as-you-go basis over the 2023 and 2063 period.

#### *Advance Commitment Authority*

- 7.9. Introduced in ADF-10, the Advance Commitment Authority (ACA) estimates the level of the Advance Commitment Capacity (ACC) from internally generated resources while ensuring the ADF's financial integrity. The ACC computation for ADF-14 assumes, inter alia, (i) a grant level of 37.1 % with an upfront charge of 13.33% to compensate foregone income flows; (ii) MDRI compensation ratio of 98%; (iii) ADB net income transfers of UA 35 million per year; and (iv) resources coming from loan cancellations of UA 30 million per year. Annex V presents a more detailed table regarding the core ADF-14 ACC assumptions.
- 7.10. Deputies approved the assumptions underlying the ACC and endorsed Management's proposal of a baseline ACC level (excluding the effect of innovative instruments) of UA 238.2 million.
- 7.11. An incremental ACC of UA 505.6 million will be available for commitment upon receipt of the instruments of subscription for the concessional loans (i.e. BLs and CDLs) from the relevant donors.

#### *Burden sharing*

- 7.12. In a replenishment, the technical gap serves to 1) accommodate the subscriptions of new State participants or donors and 2) allow increased or additional subscriptions during the life of the replenishment, without impacting the burden shares of all participants; and (3) give State participants the flexibility to increase their burden sharing during a particular replenishment without exceeding the target replenishment level.
- 7.13. In view of the specific circumstances of the ADF-14 replenishment and in order to maximize the contributions of several State Participants, Deputies agreed on a technical gap of 19.58% in the Fund's burden-sharing framework. This is reflected in the table presented in an Annex of the Board of Governors Resolution (Annex IX).

#### *Replenishment level and other resources*

- 7.14. Deputies agreed on a resource level of UA 5,035,032,339 for the ADF-14 replenishment period (2017–2019). The ADF-14 replenishment is comprised of:
  - donor subscriptions of UA 3,362,944,505 which include grant element of UA 135,220,146 from CDLs and BLs contributions;
  - donor contributions of UA 116,047,974 in the form of CDLs (net of grant element);
  - supplementary contributions of UA 1,253,426;

- an ACC of UA 743,808,915; and
  - a technical gap of 19.42%.
- 7.15. The total resources excluding the technical gap amount to UA 4,224,054,820.
- 7.16. In addition to the ADF-14 replenishment resources, the following are expected to become available during the 2017-2019 period for ADF clients<sup>21</sup>:
- The unused balance of TSF Pillar I resources that is expected to remain in Pillar I and the unused balance of TSF Pillar II resources that is expected to remain in Pillar II, from which UA 20 million will be earmarked for arrears clearance of Somalia; and
  - Additional resources from cancellations from previous replenishments.

#### *Effectiveness, Subscription Schemes and Procedures, and Encashment Schedule*

- 7.17. Deputies agreed on the terms and conditions of effectiveness, the subscription procedures, and the advanced and standard encashment schedules for ADF-14 subscriptions, including exchange rates and payment dates (Annex V).

#### *Institutional Developments*

- 7.18. The Bank Group is currently holding discussions with the Republic of Ireland and the Republic of Iceland about participation in the Fund and membership in the Bank. Management will continue its discussions with other countries that have expressed interest in joining the Bank Group as well as others, to enlarge the participation in the Fund.

## **8. Mid-Term Review of ADF-14**

- 8.1. Management proposed that ADF-supported operations will be reviewed during the second year of the ADF-14 period, but before the release of the last tranche of ADF-14 resources.
- 8.2. Management proposes the continuation of the open-ended informal working group to discuss other forms of contributions to the ADF as well as any other strategic issues of relevance to the Fund. The ADF-15 Working Group will consider, among others, the following:
- Structural issues on the future of ADF, including the financing model and design of the innovative financing instruments
  - ADF resource allocation (including, TSF Pillar 1 and vulnerability)
  - Replenishment process (including lessons learned from ADF-14 process) and ADF governance
- 8.3. The Mid-Term Review will assess progress in implementing the commitments laid out in this Report and other ADF-related issues, and, in particular, will review the following:
- Progress Report for the ADF-14 on strategic and operational priorities, including the various cross-cutting themes;
  - Status update on the Bank Group's institutional reforms;
  - Status of the implementation of commitments in the ADF-14 Implementation Matrix;
  - Update on the financing of renewable energy under ADF;
  - Status update on the utilization of resources for the various pillars of the TSF, other ADF set asides (ROs, PSF) as well as PRGs and PCGs;
  - Update on the financing framework for ADF-14, including the assumptions underlying the ACC, and additional potential contributions for the rest of the cycle of ADF-14;
  - Progress Report of the ADF Working Group, including on the proposed options for use of ADF resources to better support private sector development.

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<sup>21</sup> The final figures will only be known when ADF-13 will come to its closure.

- Report on the Consultancy Study on the inclusion of Fragility into the Performance-based allocation.
- 8.4. In consultation with Management, Deputies will select a chairperson for the ADF-15 negotiations in an open process by or at the ADF-14 Mid-Term Review.

## **9. Conclusion**

- 9.1. The Deputies agreed with the content of this Report in Luxembourg on November 29, 2016.

## Annex I: Matrix of Management Commitments and Monitorable Actions for ADF-14

I. STRATEGIC AND OPERATIONAL FOCUS		
OBJECTIVES	MONITORABLE COMMITMENTS / ACTIONS	OUTCOMES / REPORTING
<b>1. LIGHT UP AND POWER AFRICA</b>		
<i>1.1 Channel more funding for energy operations</i>	The AfDB Group will roll out its New Deal on Energy in ADF countries through partnerships, acting as a catalyst.	USD 4 billion will be leveraged through co-financing and crowding in of private and public investment in support of the energy sector in ADF countries of which USD 1 billion by MTR.
	The AfDB Group will support eligible ADF countries in their efforts to increase renewable energy through policy and investment support – and also host the Africa Renewable Energy Initiative.	Contribution towards investment in around 5,000 MW new and additional generation capacity (including large hydro).
<i>1.2 Secure electricity capacity from the private sector</i>	The AfDB Group will support the implementation of independent power producer (IPP) procurement program in ADF countries.	2 ADF countries supported by MTR and 5 by 2019.
<b>2. FEED AFRICA</b>		
<i>2.1 Leverage the potential of under tapped agro-ecological zones and catalyse private sector for agribusiness</i>	The ADF will focus on increasing and linking production and processing capacity along key regional corridors.	- 2 regions supported through dedicated ADF assistance by MTR and by 2019. - 10 facilities set up to reduce the risk and cost to serve under-financed areas of the agribusiness sector and increase financial inclusion by MTR and by 2019.
	The ADF will provide innovative financing and investment mechanisms, including its partial credit and risk guarantee instruments (PCGs and PRGs) and blended finance instruments, climate finance, and ways to leverage concessional funds for risk mitigation and decreasing cost of finance.	Over 140 agribusiness / agroindustry enterprises and 70,200 farmers supported in ADF Countries by 2019.
<i>2.2 Scale up support for climate smart agriculture (CSA)</i>	The ADF will co-finance interventions to scale up use of best practice climate smart agriculture (along with the <i>Climate Resilience Fund for Agriculture</i> to be hosted by the AfDB Group).	Climate Resilience Fund for Agriculture established in the Bank by MTR; 351,000 farmers adopting climate smart agricultural practices by end 2019.
<b>3. INDUSTRIALIZE AFRICA</b>		
<i>3.1 Update RMCs' policies and strategies to better support industry.</i>	The Bank Group will support ADF countries to develop and implement industrial policies/strategies to renew its approach to promoting and supporting private-sector-led industrialization	10 sustainable national industrial policies/strategies designed in ADF countries with AfDB support by 2019. Out of the 10 countries 2 will be in fragile situation.
<i>3.2 Catalyse private funding into infrastructure and industry projects.</i>	The ADF will crowd-in other financing, including from the private sector, into catalytic infrastructure programs and also foster investments by others.	Co-invest and facilitate in 15 infrastructure programs/projects in ADF countries by 2019.
<i>3.3 Support financial sector deepening by investing in, and supporting, micro, small and medium enterprises.</i>	The ADF will provide innovative financing and investment mechanisms to leverage concessional funds to support MSMEs in the industrial value chain.	UA 50 million of additional financing (medium to long-term credit or equity investment) for MSMEs in ADF Countries leveraged by innovative mechanisms by 2019

	The AfDB Group will scale up its Africa SME program providing lines of credits and technical assistance to SME-focused financial institutions (FIs) in ADF countries, including in fragile states.	15 Lines of credit and 15 of TA operations to SME-focused FIs by 2019.
<b>4. INTEGRATE AFRICA</b>		
<i>4.1 Accelerate the development of regional infrastructure to enhance connectivity and lower production &amp; trade costs by promoting dialogue on regional issues.</i>	The Fund will scale-up investments in PIDA projects (energy, transport, ICTs, water), and mainstream 'soft' interventions to amplify development outcomes.	<ul style="list-style-type: none"> <li>- <u>Regional Infrastructure projects</u>: 35 % increase in the stock of bankable PIDA projects reaching financial closure by 2019 (10% in Y1, 15% in Y2, 10% in Y3)</li> <li>- <u>Energy</u>: 5 cross-border energy connections by 2019 to facilitate power trade (2 by MTR)</li> <li>- <u>Transport</u>: 3,050 km of regional roads rehabilitated or built by 2019.</li> <li>- Transport &amp; Trade Facilitation Tool to be used to mainstream soft issues on all cross-border transport projects finalized by 2018.</li> </ul>
	The Fund will step-up its support for ADF countries to reform and/or harmonize cross-border policies that address challenges faced by traders in line with regional treaties & the WTO Trade Facilitation (TF) Agreement.	<ul style="list-style-type: none"> <li>- 6 trade-corridor interventions by 2019 (3 by MTR) to assist implementation of TF measures to reduce cross-border trading costs (One-Stop-Border-Posts and Single windows, coordinated border management, cargo tracking, and/or simplification of tariffs, simplified trade regimes for small scale cross-border traders)</li> <li>- 4 regional power pools (2 by MTR) supported with capacity building activities to expand cross-border power trade.</li> </ul>
	The Bank Group will intensify the use of its convening power around pressing regional challenges to advocate for policy reforms based on data-driven knowledge products and tools.	- 3 major regional gatherings with multi-sector representatives organized by MTR (and another 3 by 2019) on issues raised in 2 flagship publications: The <u>Africa Visa Index</u> and the <u>Africa Regional Integration Index</u> .
<i>4.2 Accelerating the development of regional markets and value chains.</i>	The Fund will support RECs to harmonize quality and standards to widen market access for ADF countries.	<ul style="list-style-type: none"> <li>- 3 interventions to support RECs to develop harmonized regional quality and standards for widening market access and promoting regional value chains by 2019 (1REC by MTR).</li> <li>- 6 interventions (3 by MTR) to assist countries to upgrade their national quality infrastructure.</li> </ul>
	The Fund will support eligible countries to develop Spatial Development Initiatives along transport corridors to unlock regional value chains.	- Value chain projects identified on 3 Spatial Development Initiatives (SDIs) along transport corridors by MTR.
<b>5. IMPROVE THE QUALITY OF LIFE FOR THE PEOPLE OF AFRICA</b>		
<i>5.1 Supporting job creation across the High 5s, with a focus on youth and women.</i>	The AfDB Group will implement its Jobs for Youth Initiative with the view of creating quality jobs and contribute to create opportunities which will mitigate outward-migration.	<ul style="list-style-type: none"> <li>- 3.6 million young people to benefit from job opportunities by 2019 (i.e. 830,000 direct jobs and 2.70 million indirect and induced jobs);</li> <li>- 2.2 million people equipped with job-specific skills; 0.5 million people benefit from better access to education by 2019.</li> </ul>
	The AfDB Group will establish an innovation and information lab for market-based solutions to inform the design of jobs-generating operations and policies; incubate new ideas that aim to accelerate employment and entrepreneurship; and provide training and other support for entrepreneurs.	<ul style="list-style-type: none"> <li>- Lab set up by end 2017.</li> <li>- At least 10 Bank's projects/ADF countries benefiting from ecosystem support from the lab by 2019.</li> <li>- At least 10 business incubators strengthened (with relevant knowledge, funding, mentorship etc.) from the lab's operation by MTR</li> </ul>
<i>5.2 Improving well-being and livelihoods through sustainable water and sanitation management.</i>	The ADF will mobilize and invest additional resources for integrated and climate-resilient water infrastructure and services.	- Interventions in water and sanitation in ADF countries by MTR to benefit 1.7 million people and 4.4 million people by 2019.



6. CROSS-CUTTING STRATEGIC AREAS		
<b>Climate change</b>		
6.1 Investment and tracking of climate adaptation and mitigation finance.	The ADF will significantly scale up climate financing in eligible countries.	- ADF climate finance oriented resources are at least 35% by 2019.
6.2 Support countries to meet their INDC.	The ADF will provide technical assistance and policy advice to ADF countries.	- 10 operations in 10 ADF countries by MTR and subsequently 28 operations in 28 ADF countries by 2019
<b>Gender</b>		
6.4 Strengthen gender mainstreaming in operations and commitment to women's economic empowerment across the High 5s to improve gender equality	The ADF will strengthen gender mainstreaming in all new operations by improving tools and measurement approaches	- Gender Marker System systematically used by end of 2017.
6.5 Commitment to women's economic empowerment across the High 5s.	Through Affirmative Finance Action for Women in Africa (AFAWA), the bank will address access to finance challenges faced by women in business	- 4 investment operations with mobilization of co-financiers in ADF countries by MTR and 8 investments by 2019. - 4 operations of capacity development/training, support to reforms, access to information/mentoring, or knowledge products/dissemination in support of businesswomen and, women entrepreneurs by MTR and 8 by 2019.
6.6 Develop a Gender Statistics Data Portal to strengthen data reporting and measurement of results	The ADF will develop a Gender Statistics Data Portal that will help staff generate data on gender indicators, gain access to presentation-ready graphics and monitor the impact of their operations on gender outcomes. In addition, the Bank will continue to work on its Gender Index, together with UNECA towards an updated joint African Gender Equality Index	- Inclusion of revised gender indicators in the RMF and launch of Gender Statistics Data Portal including updated joint African Gender Equality Index available by 2019
<b>Fragility</b>		
6.7 Deepen understanding of fragility and resilience in Africa.	The Bank Group will systematize roll out the new Country Resilience and Fragility Assessment (CRFA) tool.	- CRFA is carried out in all ADF countries by MTR and by 2019 - Two annual reports of the CRFA for ADF countries by MTR and by 2019. - The CRFA will be used in the design of new operations in countries in situation of fragility.
6.8 Partner for better delivery in insecure environments.	Conduct joint assessments and operations with development partners in eligible ADF countries.	- 3 joint assessments per year and 12 operations with key multilateral and bilateral partners by 2019.
6.9 Support private sector development in countries affected by fragility situations.	Increased resources for private sector in countries facing situations of fragility.	- Provide at least 50% of PSF new approvals, to projects in countries with a sovereign rating higher than (worse) or equal to "B" in the Bank's internal risk rating scale (4-).
<b>Governance</b>		
6.11 Scaling up policy dialogue and knowledge sharing on governance and macro-economic issues	The Bank Group will strengthen its policy dialogue and advocacy engagement on governance, macroeconomic issues and knowledge leadership	- 25 Country strategy papers with governance mainstreamed by 2019. - 10 countries supported through policy-based and investment loans to undertake governance and macro-economic reforms by MTR and 25 by 2019. - At least 8 knowledge works (position papers, economic sector work/thematic studies) to inform country policy reforms undertaken

6.12 Enhance domestic resource mobilization and tackling corruption and illicit financial flows (IFFs).	The ADF will scale up its interventions to expand eligible countries' domestic resource mobilization and improve capacity focusing on measures to increase fiscal revenues and reduce revenue leakages through corruption and illicit financial flows. Particular emphasis will be given to optimizing revenue management from natural resources and strengthening overall public administration.	At least 8 ADF countries see a 10 % increase in revenue to GDP ratio by 2019.
6.13 Support measures to improve the business environment.	The Bank Group will support policy and regulatory reforms for a competitive and enabling business environment and support financial intermediaries and SMEs.	8 ADF countries supported by MTR; and 15 by 2019.

II. DEVELOPMENT EFFECTIVENESS AND MANAGING FOR RESULTS		
OBJECTIVES	MONITORABLE COMMITMENTS / ACTIONS	OUTCOMES / REPORTING
7.1 7.1 Strengthen results measurement, accountability and operational learning.	The AfDB Group will report on results achieved in ADF countries through disaggregated data and publications.	- Annual Development Effectiveness Review published in 2017, 2018 and 2019.
7.2 Measure job creation through Bank operations and improving the knowledge base to inform operations supporting jobs.	The AfDB Group will roll-out the Development Impact Approach to better assess the extent of its contribution to direct, indirect and induced jobs created.	- The AfDB Group will track annually the number of jobs created in ADF countries as a result of its intervention by all its investments
	The AfDB Group will develop and make available for ADF countries an Enabling Youth Employment Index.	- Index available by 2017.
7.3 Manage for development results.	The AfDB Group will develop, pilot and mainstream an integrated results planning and tracking system for non-sovereign operations in ADF countries and will establish an evidence-based rating method throughout the operational cycle.	- Integrated new results based tools in the project cycle of non-sovereign operations by 2019.
	Bank Group Management will maximize the development effectiveness of Bank Group operations by enhancing performance management across the institution.	- Revamped set of key institutional performance indicators implemented by 2017.

III. RESOURCE ALLOCATION AND FINANCIAL MANAGEMENT		
OBJECTIVES	MONITORABLE COMMITMENTS / ACTIONS	OUTCOMES / REPORTING
8.1 Implement the ADF-14 resource allocation framework	Fund management will implement the allocation framework of ADF-14 resources as agreed with Deputies.	- Approval by ADF Board of agreed adjustments to ADF-14 resource allocation framework by Q2 2017.

IV. INSTITUTIONAL CAPACITY & EFFECTIVENESS TO DELIVER ON THE HIGH 5S		
OBJECTIVES	MONITORABLE COMMITMENTS / ACTIONS	OUTCOMES / REPORTING
<i>9.1 Restructure the organization to deliver on the High 5s.</i>	AfDB will roll out its new development and business delivery model.	- The organizational changes are agreed by the Board and rolled out at HQ and Regional hubs by June 2017.
	AfDB will fill all its senior positions (PL 2 and above) and bring down the vacancy rate.	- All senior positions filled by June 2017 and PL vacancy rate to below 10% by MTR.
	AfDB will sign performance contracts with all its senior staff.	- 100% of performance contracts signed by March 2017. -
	AfDB will develop and roll-out a new People Strategy and Strategic Staffing Framework to realign and enhance institutional HR processes on talent and, performance management, learning & development, rewards, career growth and leadership	- New People Strategy presented to the Board by June 2017.
<i>9.2 Improve the Bank's development effectiveness &amp; cost-efficiency.</i>	AfDB will adopt a Value for Money framework to improve its effectiveness and cost-efficiency and guide its reforms.	- Framework adopted by Q2, 2017.
<i>9.3 Improve and maintain presence in insecure environments.</i>	The AfDB Group will strengthen its physical staff presence in fragile environments.	- Increased physical presence & capacity in Regional Directorates and national offices esp. in countries dealing with fragility. Report to Deputies by ADF-14 MTR and end by 2019.

## Annex II: Projected Status and Lending Terms of ADF Recipient Countries

Eligibility for ADF resources will continue to be determined by a combination of a country's GNI per capita and its creditworthiness. Annual debt sustainability analyses will determine the risk of debt distress of each beneficiary country and set appropriate financing terms. As stipulated in the AfDB Group's Credit Policy, which is similar to that of the World Bank, creditworthiness and income will be used to categorise countries as follows:

- **Category A.** Countries not deemed creditworthy for non-concessional financing and whose income is below the operational cut-off will have access only to ADF resources. Countries not deemed creditworthy for non-concessional financing but whose income is above the operational cut-off (gap countries) will have access only to ADF funds with modified financing terms, which are the same as those of blend countries.
- **Category B.** Countries deemed creditworthy for non-concessional financing but whose income is below the operational cut-off will have access to a blend of AfDB resources and ADF resources on modified financing terms (blend financing).
- **Category C.** Countries deemed creditworthy for non-concessional financing and whose income is above the operational cut-off will have access only to AfDB resources.

The resource eligibility rule for Category A countries will have three exceptions: (i) access to the Bank's private sector window; (ii) access to non-concessional resources for enclave projects, provided that these projects meet the conditions set out in the Bank Group's Enclave Policy; and (iii) access to non-concessional financing through the 2014 policy on diversifying the Bank's products to provide eligible ADF-only countries access to the ADB sovereign window.

Deputies agreed to continue using in ADF-14 the country grouping and differentiated financing terms introduced under ADF-13:

- **Country Classification.** The non-gap ADF-only countries will be grouped into two sub-groups ("regular" and "advance" ADF-only countries) based on their GNI per capita, whereby the countries with a GNI per capita (Atlas method) above the average of all ADF-only non-gap countries are included in the "advance" group, and all countries with a GNI per capita below the average are in the "regular" group.
- **Differentiated and Hardened Financing Terms.** Differentiated ADF loan-financing terms will be applied to regular and advance ADF-only countries, and to blend, gap and graduating countries. The new lending terms will be applied only to new ADF loans. They will only apply to the loan portion of the allocations of the countries at moderate or low risk of debt distress according to the International Monetary Fund/World Bank Debt Sustainability Framework (DSF) ("green" or "yellow" countries). As an exception, "regular" ADF lending terms will apply to all FSF Pillar I-fragile states eligible for loans.

Countries' classification, grouping, lending eligibility and financing terms will be reviewed annually at the beginning of the PBA allocation process.

Country	Classification & Lending Terms				TSF Pillar I <sup>†</sup>	DSA
	2016	2017 <sup>±</sup>	2018 <sup>±</sup>	2019 <sup>±</sup>		
Benin	Advance	Advance	Advance	Advance		Green
Burkina Faso	Regular	Advance	Advance	Advance		Yellow
Burundi	Regular	Regular	Regular	Regular		Red
Cameroon	Blend	Blend	Blend	Blend		Red
Central African Rep.	Regular	Regular	Regular	Regular		Red
Chad	Advance	Regular	Regular	Regular		Red
Comoros	Regular	Regular	Regular	Regular		Yellow
Cote d'Ivoire	Blend	Blend	Blend	Blend		Yellow
Congo Democratic Rep.	Regular	Regular	Regular	Regular		Yellow
Djibouti	Blend	Blend	Blend	Blend		Red
Eritrea	Regular	Regular	Regular	Regular		Yellow
Ethiopia	Regular	Regular	Regular	Regular		Yellow
Gambia	Regular	Regular	Regular	Regular		Yellow
Ghana	Blend	Blend	Blend	Blend		Red
Guinea	Regular	Regular	Regular	Regular		Yellow
Guinea-Bissau	Regular	Regular	Regular	Regular		Yellow
Kenya	Blend	Blend	Blend	Blend		Green
Lesotho	Blend	Blend	Blend	Blend		Yellow
Liberia	Regular	Regular	Regular	Regular		Yellow
Madagascar	Regular	Regular	Regular	Regular		Yellow
Malawi	Regular	Regular	Regular	Regular		Yellow
Mali	Regular	Regular	Regular	Regular		Yellow
Mauritania	Advance	Advance	Advance	Advance		Red
Mozambique	Regular	Regular	Regular	Regular		Yellow
Niger	Regular	Regular	Regular	Regular		Yellow
Nigeria	Blend	Blend	Blend	Blend		Green
Rwanda	Regular	Advance	Advance	Advance		Green
São Tomé et Príncipe	Blend	Blend	Blend	Blend		Red
Senegal	Advance	Advance	Blend	Blend		Green
Sierra Leone	Regular	Regular	Regular	Regular		Yellow
Somalia	Regular	Regular	Regular	Regular		Red
South Sudan	Regular	Regular	Regular	Regular		Yellow
Sudan	Regular	Regular	Regular	Blend		Red
Tanzania	Regular	Advance	Advance	Advance		Green
Togo	Regular	Regular	Regular	Regular		Yellow
Uganda	Regular	Regular	Regular	Regular		Green
Zambia	Blend	Blend	Blend	Blend		Yellow
Zimbabwe	Regular	Regular	Regular	Regular		Red

± Classifications and lending terms of countries are based on current projections and could be revised annually in the course of the ADF-14 cycle in the beginning of each PBA exercise.

† TSF Pillar I eligibility is based on preliminary review. A detailed county-by-country eligibility assessment will be presented to the Board of Directors before the beginning of the ADF-14 cycle.

#### Country Classification

- Eligible for TSF
- ADF-only (category A)
- Gap (category A)
- Blend (category B)
- ▲ In transition to ADB (category C)
- ▲ ADB-only (category C)

#### Differentiated and Hardened Financing Terms

	Maturity (Years)	Grace (Years)	Interest Rate (%)
Advance	40	5	–
Regular	40	10	–
Blend	30	5	1

## Annex III: Performance-Based Allocation Framework for ADF-14

### PBA Computation Process

The annual allocation of PBA resources to ADF-eligible countries is a three-step process. First, a basic allocation is calculated for each country using the PBA formula. Second, the financing terms are determined for each country allocation on the basis of the joint WB/IMF Debt Sustainability Framework (DSF). Third, the debt relief provided to eligible countries – under the Multilateral Debt Relief Initiative (MDRI) – is netted out from their allocations and donors' replacement funds are reallocated to all ADF-only (including gap) countries based on PBA shares.

#### Step 1: Basic Allocations (applying the PBA formula)

The PBA formula has two building blocks: needs and performance. Needs are captured by: Gross National Income per capita (GNIPC); Population (Pop); and infrastructure gap as measured by the Africa Infrastructure Development Index (AIDI). Performance is captured through the Country Performance Assessment (CPA), which is mainly based on the cluster scores (A, B, C, D, and E) of the Country Policy and Institutional Assessment (CPIA) and the Portfolio Performance Assessment (PPA). The PBA formula is:

$$A = CPA^{4.125} \times GNIPC^{-0.125} \times Pop^1 \times AIDI^{-0.25} \quad (1)$$

$$CPA = \begin{cases} 0.20 \times CPIA_{ABC} + 0.58 \times CPIA_D + 0.06 \times CPIA_E + 0.16 \times PPA \\ 0.36 \times CPIA_{ABC} + 0.58 \times CPIA_D + 0.06 \times CPIA_E \text{ if no portfolio} \end{cases} \quad (2)$$

Where, for a given country:

$A$  is the PBA share for calculating its allocation

$CPA$  is the score of its performance assessment

$CPIA_{ABC}$  is the average score of its performance according to Cluster A, B and C of the CPIA

$CPIA_D$  is the score of its performance according to Cluster D (governance) of the CPIA

$CPIA_E$  is the score of its performance according to Cluster E of the CPIA

$PPA$  is the performance assessment of its ongoing projects' portfolio

$GNIPC$  is the moving average of its gross national income per capita (in US\$)

$Pop$  is the volume of its population (in millions of people)

$AIDI$  is its score for the Africa Infrastructure Development Index

#### Box III-1: PBA Adjustments under ADF-13

Under ADF-13, the PBA system was adjusted in order to better align it with the ADF operational priorities and the Bank Group's mandate. The Africa Infrastructure Development Index (AIDI), which measures the level of a country's infrastructure, was included in the formula's needs component with a negative exponent of -0.25, so that countries with a greater infrastructure deficit benefit more. On the performance side, a new group of questions focused on infrastructure and regional integration (Cluster E) has been added to the CPIA with a weight of 6%.

To maintain the balance between performance and needs, the exponent of the performance component was increased from 4 to 4.125. The effective weight of the CPIA cluster D for governance and the PPA remain unchanged, i.e. 58% and 16% respectively. In the absence of a Bank Group portfolio of operations in a country, the weight of the PPA is added to the one of the  $CPIA_{ABC}$ .



### *Step 2: Using the Debt Sustainability Framework and the Modified Volume Approach*

The DSF is used to determine each country's risk of debt distress. For each country, a DSA is undertaken based on two criteria: the institutional strength and quality of a country's policies to withstand debt distress, and country-specific debt burden indicators (namely, the net present value of debt/gross domestic product ratio, the net present value of debt/exports ratio, and the debt service/exports ratio). Countries are classified by three "traffic lights," where red indicates a high risk of debt distress, yellow indicates a moderate risk, and green indicates a low risk. Countries in the red category qualify for 100% grants, countries in the green category qualify for 100% loans, and countries in the yellow category qualify for a 50/50 loan/grant combination. Gap countries, Blend countries, and graduating countries are not eligible for grants, regardless of their DSA status.

Like in ADF-12 and ADF-13, a modified volume approach is applied to PBA allocations under ADF-14. The primary purpose of the approach is to cover ADF forgone income and administrative charges for grant allocations up front and to strengthen the incentive structure of the PBA system. The approach applies a 20% volume discount to all grants. The discount is sub-divided into two parts: 13.33% charges-related portion to cover ADF forgone income and administrative charges for grant allocations; and 6.67% incentives-related portion to strengthen the incentives structure in the PBA system. The incentive related discount is reallocated to all ADF-only and gap countries using the basic PBA allocations. This is not applicable to fragile states.

### *Step 3: Multilateral Debt Relief Initiative Netting Out and Topping-up to the Minimum Allocation*

The foregone debt service payments of countries qualifying for debt relief under the MDRI are deducted from these countries' allocations through the MDRI netting-out mechanism. Resources from donors to compensate the ADF for the MDRI are reallocated to all ADF-only countries (including gap countries), using the basic allocations resulting from the first step of the allocation process.

After this step in the process, any country whose allocation is below the minimum allocation of UA 5 million per year will see its allocation topped up to the minimum level. This provision does not apply to countries in transition to blend or AfDB-only status.

## **Annex IV: Methodology for Calculating TSF Pillar I Resources**

Upon the qualification of a country for access to TSF resources and approval by the Board of Directors, Pillar I resources are allocated fully at the start of the ADF cycle. Allocations are calculated based on the average of the two highest 3-year PBA basic allocations received by the country during the previous ADF cycle. A top-up multiplier of 2 (1.5 for third cycle recipients excluding pre-arrears clearance and newly engaging countries) is applied to this average.

Next, for countries benefitting from a third cycle of assistance, a set of parameters and associated discount rates are applied to gradually phase out TSF Pillar I support, including:

- (i) Average AfDB/WB CPIA score to measure performance against the agreed fragility benchmark of 3.3 (i.e. 10% discount on gross Pillar I allocation if a country has a CPIA score greater than 3.3);
- (ii) Gross National Income per Capita on Purchasing Power Parity basis (20% discount if greater than US\$500 and 30% discount if greater than US\$1000);
- (iii) Length of reengagement, including pre-TSF engagement under the Post Conflict Country Facility (30% discount if greater than 6 years).

A minimum supplemental allocation of UA 15 million and a maximum UA 60 million are set per country. Such limits can be increased if additional voluntary donor contributions materialize.

## Annex V: Key Elements of the ADF-14 Financial Framework

Deputies approved the Advance Commitment Capacity (ACC) assumptions, Innovative Financing Instruments, the technical provisions for subscription procedures and terms and conditions for the ADF-14 Financial Framework as follows:

### I. The Advance Commitment Capacity

**Table V-1: Core Assumptions underlying the ADF-12 Advance Commitment Capacity**

Assumptions	Description	ADF-13	ADF-14
Liquidity framework of the ACA scheme	When the ACA scheme was conceptualized in 2005 during ADF-10, the Fund's eligible liquidity included HTM portfolios.	ACA liquidity merged with Donor's liquidity	
	For ADF-13, HTM portfolios were included in the Fund's liquidity.  For ADF-14, HTM & HTM-ACE portfolios are excluded. Only maturing securities are included in the Fund's eligible liquidity over time.	Trading portfolio +61% HTM + 100% HTM-ACE included in ACC liquidity	Trading portfolio + only <u>amortizing</u> HTM & HTM-ACE included in ACC liquidity
Minimum Prudential Level of Annual Liquidity for the ACC	To comply with the Fund's liquidity policy, the level of liquidity is maintained at a percentage of projected disbursements for the following three years.	75%	75%
Minimum Prudential Level of Annual Liquidity used for Encashment determination		62.50%	62.50%
Standard Encashment Schedule	10-year standard encashment schedule for ADF-14 is revised to take account of updated loans' disbursement profile - especially fast disbursing initiatives (Transition States Facility and Private Sector Credit Enhancement Facility). Therefore, the Weighted Average Maturity (in years) of Standard Encashment Schedule has been reduced.	4.6	4.3
Increase in Donor Contributions in Future Replenishments	To establish the ACC for the baseline scenario, donor subscriptions for future replenishments are conservatively assumed to remain unchanged in real terms. The nominal amount of donor contributions is estimated to increase by the cumulative rate of inflation (for the special drawing right-SDR) of the previous replenishment period. The same inflation rate is used to project future increases in donor contributions.	6.84%	0.00%
Accelerated Encashment per replenishment	Expected accelerated encashment to be perceived in a replenishment as a percentage of standard encashment schedule.	20%	20%

Share of Grants in Replenishment	The grant level for the replenishment is determined as per the debt sustainability analysis of ADF countries. The share of grants in ADF-13 is based on the level of grants observed during the ADF-12, adjusted for likely changes in the future.	33.45%	37.10%
Signed amount year of approval	Percentage of projects signed/committed within their year of approval	15%	60%
Disbursement profile	Weighted Average Maturity (in years) of loans disbursement has been revised down owing to fast-disbursing initiatives.	5.2	4.8
Effective loan cancellations returning to the liquidity pool	The model assumes a certain level of annual cancellations in nominal terms, in UA millions. During ADF-12, the loan cancellation policy was modified and only 30% of loan cancellations are re-injected in the liquidity pool while 70% remain allocated to the country. Accordingly, for ADF-13 we assumed that only UA 30 million (30% of the gross cancellations of UA 100 million) will return to the liquidity pool used to estimate the ACC. This remains unchanged for ADF-14.	30%	30%
Disbursement Sensitivity Factor	To account for grant compensation and loan cancellations, reductions in disbursement flows are maintained constant at a percentage of signed loans.	93.60%	95.14%
Percentage of Multilateral Debt Relief Initiative (MDRI) Compensation that is received	In addition to regular contributions, donors are expected to make additional contributions during future replenishments to cover 100% of MDRI costs for eligible countries on a pay-as-you-go basis. Based on historically observed MDRI recovery rate, the model assumes a percentage of contributions for MDRI compensations that will be received in ADF-14 and in future replenishments	98.3% (incl. lag of 7.2%)	98% (incl. lag of 10%)
Upfront Charge on Grants	In addition to regular contributions, donors have agreed to finance 100% of foregone principal reflows due to grants through additional contributions in future replenishments, on a pay-as-you-go basis. Foregone charges income is addressed through volume discounts on grants. The upfront compensation for ADF-14 will be adjusted when the replenishment discount rate will be fixed.	15%	13%

Percentage increase in Administrative Expenses	These expenses are based on the relevant approved budget program and are set to increase annually thereafter at the percentage indicated.	3%	3%
AfDB Transfers Per Year	Annual transfer from AfDB net income, in UA millions	47	35
Repayment Sensitivity Factor	To account for delayed repayments by countries in arrears to the Fund, repayment flows are maintained at a constant percentage of expected loan repayments	95%	95%
Investment Return Rate	Annual rate of return of the investment portfolio	2.65%	1.31%
Estimated ACC (excl. Innovative Instruments)	Level of the ACC resulting from the model, in UA million	976	238

## ***II. Innovative Financing Instruments***

Participants agreed to include the two following Innovative Financing Instruments into the ADF-14 Financial Framework: the concessional donor loan and the bridge loan. While committing to preserve ADF's long term financial sustainability, Participants agreed that both instruments will be guided by the following core principles:

**Protection of the ADF grant-component and additionality** (no substitution effect). Participants underscored the importance of the limit on the overall share of financing provided in the form of concessional loans, and agreed that State Participants who are providing concessional loans to ADF-14 should provide at least 80% of their ADF-13 subscription amount in national currency in pure grant terms, and target at least 100% of their ADF-13 basic subscription amount through a combination of pure grant and grant element of concessional loans basis.

**Fair recognition of donors providing concessional lending.** Participants recognized that State Participants providing concessional loan would receive burden sharing recognition and allocation of voting rights based on the grant element of the loans accepted by the Fund.

**No earmarking of the proceeds of the concessional loans.** Participants noted that loan proceeds would not be earmarked for any purpose and would be used as part of ADF's overall pool of resources with a view to be directly transferred to ADF recipients either in the form of grants or loans.

### ***a) Concessional Donor Loan (CDL)***

CDLs are loans offered by development partners to the ADF at interest rates significantly lower than market rates, to supplement available grant resources in the financing framework of a specific replenishment cycle.

Participants approved the general terms for CDLs in ADF-14 as follows:

- **Maturity:** Minimum 35 years - 40 years is preferred in order to match as closely as possible ADF's lending terms.
- **Grace period:** the grace period would be a minimum of 5 years, with longer grace periods being encouraged.
- **Discount rate:** a discount rate of 2.65% (in SDR) has been agreed for the computation of the grant element of the CDL.
- **Repayment schedule:** the repayment schedule would begin after the grace period - a straight-line amortizing repayment schedule would be applied, closely matching the repayments terms of the underlying ADF loans.
- **Effective borrowing interest rate:** Ideally, the interest rate would be 0% in currency – with a maximum 0.5% after swap rates in EUR or USD. This interest rate may also be achieved by providing additional grants to buy-down the resulting after-swap rate to the maximum interest rate deemed acceptable by the Fund. Participants agreed on the maximum lending rates as set in table V-2 below:

**Table V-2: Maximum lending rates for CDLs**

Target Maturity	Currency	Prevailing market rates	<u>Maximum</u> CDL borrowing rates
<b>40 years – including a 5-year grace period</b>	EUR*	N/A	<b>+0.50%</b>
	USD*	N/A	<b>+0.50%</b>
	JPY **	-0.35%	<b>-0.50%</b>
	GBP**	+0.82%	<b>+0.75%</b>
	CAD**	+1.56%	<b>+1.00%</b>

\*Not applicable in the case of EUR and USD, as the Fund will not swap CDLs denominated in these currencies.

\*\* Assumes a target maximum after swap rate of 0.5% in EUR.

- **Currencies:** ADF would accept loans in any currency.
- **Prepayment:** ADF would be able to prepay some or the entire outstanding stock of CDLs without penalty.
- **Cancellation:** ADF would be able to - partially or fully – cancel undrawn amounts under CDLs without penalty.
- **Drawdown:** ADF would draw-down on CDLs during the ADF-14 cycle in up to a maximum of 3 instalments.

It was noted that CDLs would be self-contained and would be serviced via reflows from ADF blend, gap and transitional support loans approved during the ADF-14 cycle. ADF grant providers would not bear costs or risks associated with CDLs.



**b) Bridge Loan (BL)**

Participants approved the introduction of the Bridge Loan (BL), the purpose of which is to improve ADF's general liquidity level and increase the ACC by frontloading future internally generated resources to the forthcoming two replenishment cycles, through which the Fund's ACC was expected to be low. The ADF will frontload resources to support more operations earlier in recipient countries and will reimburse the bridge loan starting from ADF-16 cycle when reflows into the Fund are expected to exceed outflows. As in the case of the CDLs, Participants agreed that BL providers would receive ADF burden-sharing recognition based on the grant element of their loan. Participants approved the general terms for BLs in ADF-14 as follows:

- **Maturity:** Minimum maturity of 20 years up to 40 years.
- **Grace period:** the grace period would a minimum of 10 years.
- **Discount rate:** a discount rate of 2.65% (in SDR) has been agreed for the computation of the grant element of the BLs.
- **Repayment schedule:** the repayment schedule would begin after the grace period - a straight-line amortizing repayment schedule would be applied.
- **Effective borrowing interest rate:** 0% - with maximum set as per table below:

**Table V-3: Maximum lending rates for BLs**

Target Maturity	Currency	Prevailing Investment Returns	<u>Maximum</u> BL borrowing rates
20 years – including a 10 year grace period	EUR	0.35%	0.20%
	USD	1.50%	1.00%
	JPY	0.15%	0.01%
	GBP	1.15%	0.75%
	CAD	1.25%	1.00%
	CNY	2.50%	1.00%

- **Currencies:** ADF would accept CDLs in any currency.
- **Prepayment:** ADF could prepay some or the entire stock of outstanding BL without penalty.
- **Cancellation:** ADF could - partially or fully - cancel without penalty undrawn amounts under the bridge loans made available to it.
- **Drawdown:** ADF would draw down on BLs within the ADF-14 cycle, preferably in 1 instalment but up to a maximum of 3 instalments. .

Participants agreed that both CDL and BL will become effective upon signature of a loan agreement by the parties. If applicable, the CDL and BL will become effective upon the provision of the full unqualified amount of a coupon equalization grant. A model of a loan agreement is provided in Annex VI.

### ***III. Subscription Procedures***

**Exchange rates.** ADF-14 subscriptions may be denominated in (i) Special Drawing Rights (SDR), (ii) in an SDR component currency (US dollar, euro, Japanese yen, pound sterling or Chinese renminbi), or (iii) in a donor's own national currency, provided that this currency is freely convertible and that the average domestic inflation rate has not surpassed 10% in the preceding three years. Deputies also agreed to use average of the SDR/foreign exchange rates for the 6-month period starting on 3 April 2016 as the reference for determining the exchange rates applicable to the replenishment, which would be assessed against a synthetic SDR reflecting the recent revision of the SDR basket.

**Payment.** The payment dates of the ADF-14 subscription shall be the 15 January of each year of the replenishment cycle. These dates will mitigate disruptions in operations by ensuring adequate commitment capacity in the first months of the year, particularly in years when frontloading might occur. The ADF recognises that some donors, due to their internal legislative procedures and processes, might not be able to comply with these payment deadlines.

**Encashment.** Deputies agreed that the standard encashment schedule for ADF-14 will be adjusted to reflect an analysis of the Fund's loan and grant disbursement patterns. The computation of the encashment schedule, which continues to be fully compliant with the Fund's liquidity policy, took into account the following key assumptions:

- Donor subscriptions will be committed evenly over the three years of the replenishment.
- Disbursements on regular development projects and policy-based operations will follow the historical disbursement pattern observed during the period between 2002 and 2015.
- Dedicated resource envelopes allocated to special initiatives such as the Transition Support Facility (TSF) or the Private Sector Credit Enhancement Facility (PSF) are expected to represent approximately 20% of donor contributions and to be fully disbursed over a period of 3 years. These dedicated resources envelopes are considered as fast disbursing initiatives.
- For the purpose of determining the encashment schedule, as stipulated in the Fund's liquidity policy guidelines, the target liquidity level in any given year will be set at 62.5% of the three year moving average of net disbursements. This target level of liquidity represents a buffer which allows the Fund to meet both faster-than-projected disbursements, and shortfalls in encashment from donors.

On the basis of these key assumptions, the Fund's adopted the standard encashment schedule for ADF-14 as presented in Table V-4 and compared to the approved encashment schedule of ADF-13.

**Table V-4: Standard encashment schedule for ADF-14**

ADF Standard Encashment Schedule			
<i>(% of Donors Contribution)</i>			
10-year profile with 20% Fast Disbursing over 3 years			
Year	Grants and Loans	Fast Disbursing Initiatives	Weighted Profile
1	5.14	33.3	10.78
2	8.10	33.3	13.15
3	11.38	33.3	15.77
4	12.87		10.29
5	13.10		10.48
6	12.32		9.86
7	11.13		8.91
8	10.65		8.52
9	11.06		8.85
10	4.24		3.39
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Duration</b>	<b>5.0</b>	<b>1.5</b>	<b>4.3</b>

The slightly faster encashment rate reflects the increased share of fast disbursing initiatives on recent ADF replenishments.

Donors that have the possibility to do so, can agree, on a voluntary basis, to encash their subscriptions according to a shorter 4-year calendar, or any other calendar shorter than the standard 10-year encashment schedule, provided that its terms are no less favourable to the Fund. Donors opting for shortened encashment calendars should inform the Fund in advance, preferably during the pledging session so that there is enough lead time to re-compute the ACC.

**Accelerated encashment framework.** Since ADF-9, donors have been given the option of accelerating the rate of encashment of their subscriptions by selecting a customised encashment schedule. The returns generated by investing these funds received in advance are credited to donors based on a pre-agreed discount rate. These acceleration credits can be used to meet or increase donors' burden share, lower the technical gap of the replenishment, pay for other commitments to the Fund (such as grant compensation or contributions to the MDRI), or to meet past due payments on past replenishments.

For ADF-13, Deputies agreed to a new fully hedged framework, ensuring that the Fund protects its development resources from the risk of interest rate-related losses. Deputies expressed their support for ADF-13's fully hedged accelerated encashment framework. It will be retained for ADF-14 with a minor modification: restricting the minimum eligible amount for acceleration to UA 25 million equivalent. This is to ensure the feasibility and effectiveness of the hedging strategy. Smaller subscription amounts will be considered only on a best-efforts basis. The main features of the ADF-14 framework are summarized in table V-5.

**Table V-5: Fully hedged Accelerated encashment framework**

Accelerated Encashment Framework Details	
<b>Eligible Currencies:</b>	<ul style="list-style-type: none"> <li>• USD, EUR, GBP, JPY and CAD</li> </ul>
<b>Reference Discount Rates:</b>	<ul style="list-style-type: none"> <li>• Currency specific Overnight Index Swap (OIS) rates<sup>22</sup></li> </ul>
<b>Minimum amount for eligibility</b>	<ul style="list-style-type: none"> <li>• UA 25 million equivalent (in subscription currency). Smaller subscription amounts will be considered on a best efforts basis<sup>23</sup>.</li> </ul>
<b>Timing of Discount Rate Setting:</b>	<ul style="list-style-type: none"> <li>• Rate set when the donor irrevocably commits to a specific, pre-agreed accelerated encashment schedule</li> </ul>
<b>Irrevocability:</b>	<ul style="list-style-type: none"> <li>• Election of the accelerated payment scheme will be irrevocable as of the date that the Fund and relevant donor agree on the accelerated encashment schedule</li> <li>• All costs arising from payment delays will be borne by the donor, including the cost of ADF unwinding its hedge</li> </ul>

<sup>22</sup> Overnight indexed swap (OIS) is an interest rate swap where the periodic floating payment is generally based on a return calculated from a daily compound interest investment. The reference for a daily compounded rate is an overnight rate (or overnight index rate) and the exact averaging formula depends on the type of such rate. The index rate is typically the rate for overnight unsecured lending between banks, for example the Federal funds rate for US dollars, Eonia for Euros or Sonia for sterling. The fixed rate of OIS is typically an interest rate considered less risky than the corresponding interbank rate (LIBOR) because there is limited counterparty risk.

<sup>23</sup> Smaller subscription amounts are more difficult to hedge in the market as the swap notional on some of the encashment years would be less than UA 0.85 million (about USD 1 million), typically the minimum amount interest rate dealers will consider from counterparties when quoting and trading derivative transactions.

<b>Process:</b>	<ul style="list-style-type: none"> <li>• Management and the donor country agree on a date for determining the applicable ADF-14 discount rate (fixing date).</li> <li>• First accelerated encashment amount should be received within 30 calendar days of the fixing date.</li> <li>• The Fund will execute the hedge in the market<sup>24</sup> on the fixing date and communicate to the donor the final irrevocable discount rate obtained on the hedge</li> </ul>
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#### ***IV. Terms and conditions for Effectiveness and Subscription***

After consideration of the issues for which provisions have been made in the ADF-14 Resolution, Deputies established the following terms and conditions for subscriptions in respect of the Fourteenth Replenishment:

- The Replenishment will come into effect when the Fund has received the Instruments of Subscription representing an aggregate amount equivalent to at least 30% of total Subscriptions (the Effective Date), provided that this date shall not be later than 31 March 2017, or any later date that the Board of Governors may determine.
- In order to enable the ADF to meet operational commitments before the entry into effect of the Fourteenth Replenishment, the Fund, in addition to the ability to commit ACC resources after the ADF-14 Resolution has been approved, is authorized, when the level of subscriptions received aggregates 20% of total pledges, to use for operational commitment an amount equivalent to the first commitment tranche of each Instrument of Subscription received before the Effective Date, unless the subscribing State Participant specifies otherwise when depositing its Instrument of Subscription. This Advance Subscription Scheme will be implemented without prejudice to the Advance Facility Scheme under which any State Participant may authorize the use of any portion of its subscription for commitment purposes before the entry into effect of the Fourteenth Replenishment;
- Subscriptions may, in exceptional cases, be qualified and state Participants intending to do so will notify the ADF to that effect. Such qualified subscriptions shall be subject to the conditions specified in the Resolution;

<sup>24</sup> In some instances, should the OIS market not be liquid enough to execute the hedging strategy using OIS rates, the Fund may use regular interest rate swaps, with the fixed discount rate being adjusted downwards by a spread representing the basis to the OIS rate. In case a donor's accelerated schedule consists only of a single instalment, the Fund may also consider hedging the subscription in the cash bond market, rather than using OIS.

- Subscription pledges listed in the Annex to the Resolution on the Fourteenth Replenishment have been determined in Units of Account (UA) and have been converted into Units of Obligation of the individual participants on the basis of daily average exchange rates, expressed in terms of Currency Units per SDR as given by the International Monetary Fund (IMF) for the six-month period from 3 April 2016 to 3 October 2016. Subscriptions shall be denominated in (i) SDR of the IMF; (ii) a currency used for the valuation of the SDR; or (iii) the currency of the individual State Participant, except that if the economy of a State Participant experienced a rate of inflation in excess of 10% a year in the period 1 January 2014 to 31 December 2016. As determined by the ADF, the State Participant's Subscription will be denominated in SDRs or, at the option of the State Participant, in a currency used for the valuation of the SDR;
- Subscriptions and grant element embedded within CDLs and BLs will carry voting power in the manner specified in the Resolution on the Fourteenth Replenishment to the extent that they have been paid for. However, if the Fourteenth Replenishment has not entered into effect by 1 January 2017, Advance Subscriptions will carry voting power to the extent of payment;
- Terms of payment have been determined such that the ADF will have the resources it needs to operate satisfactorily and to reflect the multilateral character of the Fourteenth Replenishment. Payment in respect of each subscription will be made in three equal instalments, of which the first instalment will be made on or before 15 January 2017 or 30 days after the Effective Date, whichever is earlier, with the second and third instalments falling due respectively on or before 15 January 2018 and 15 January 2019; any State Participant may, by a written declaration, indicate to the ADF that it intends to make payment at earlier dates or in fewer instalments or different proportions not less favourable to the ADF than those specified in this or in the next paragraph;
- As an exceptional case when a State Participant cannot, due to its legislative procedures, make payment in respect of the first instalment by the stated date, payment in respect of that instalment should be made within 30 days of the deposit of its Instrument of Subscription. Subsequent payments in respect of qualified subscriptions shall be made within 30 days as and to the extent that the relevant instalment becomes unqualified and subject to the annual two payment dates specified for unqualified subscriptions. A State Participant that has deposited a Qualified Instrument of Subscription shall inform the ADF of the status of its subscription (i.e., whether legislative approval has been received or not) not later than 30 days after the annual payment dates specified for unqualified subscriptions;
- At the time of depositing its Instrument of Subscription, each State Participant shall indicate to the ADF its proposed program of instalment payments;
- Encashment of notes shall be in accordance with the replenishment specific (fixed schedule) encashment system, adopted by the Board of Directors in March 2000. The encashment schedule shall cover a period of 10 years from 2017 to 2026. A standard encashment schedule shall be prepared for each State Participant in his currency of obligation, using the profile indicated in Table V-4. Should a State Participant wish to adopt an encashment schedule other than the standard, the ADF shall agree with the State Participant on a revised encashment schedule for its unqualified subscription that yields at least an equivalent value to the ADF in present value terms;
- The size of each commitment tranche will be equal to one-third of the amount of total subscriptions;
- The rules governing the commitment of each of the three tranches have been formulated in such a way that the first tranche will be committed from the Effective Date (or before that date, if it is an Advance Subscription); the second tranche from 1 January 2018, or the Effective Date, whichever is later; and the third tranche from 1 January 2019 or the Effective Date, whichever is later.



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# **Concessional Donor Loan Agreement**

**between**

**[•]**

**and**

**THE AFRICAN DEVELOPMENT FUND**

**Dated [•]**

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## CONCESSIONAL DONOR LOAN AGREEMENT

**AGREEMENT**, dated [•], between [•], [*name of donor*] (the “Lender”), as the lender; and the AFRICAN DEVELOPMENT FUND (“AfDF”), as the borrower.

**WHEREAS** AfDF’s Board of Governors have approved contracting financing from AfDF’s State participants in the context of the Fourteenth Replenishment of AfDF’s resources (“ADF-14”) and on such terms and conditions as may be approved from time to time;

**WHEREAS** the Lender has decided to further contribute to the AfDF by way of providing a loan in accordance with the provisions of this Agreement;

**WHEREAS** The AfDF has decided to accept such loan in accordance with the provisions of this Agreement;

**NOW, THEREFORE**, the parties hereto hereby agree as follows:

### ARTICLE 1. DEFINITIONS, INTERPRETATION AND CONSTRUCTION

1.1 In this Agreement, unless otherwise defined, or unless the context otherwise requires, terms used herein shall have the following meanings:

“Agreement” means this agreement and its schedules.

“Agreement establishing the AfDF” means AfDF’s Agreement effective on November 29, 1972 as has been amended and will be amended from time to time.

“Business Day” means any day (other than a Saturday or Sunday) when banks are generally open for business both in Abidjan, Côte d’Ivoire and [*Lender’s business capital*].

“Default Interest Rate” means the interest rate specified in Section 3.2(a) plus [•]%

“Disbursement Amount” means one third of the Loan or such other amount as may be agreed between the Lender and AfDF.

“Disbursement Date” means -----, 2017, -----, 2018 and -----, 2019 (or such other dates as may be agreed between the Lender and the AfDF) on which the proceeds of the Loan are disbursed and paid to the AfDF.

“Canadian Dollars”, “CAD” each means the lawful currency of Canada.

“Dollar”, “\$” and “USD” each means the lawful currency of the United States of America.

“Drawdown Period” means three (03) years from the date of signature of this Agreement.

“Euro”, “€” and “EUR” each means the lawful currency of member states of the European Union that adopt the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on European Union.

“Grant Element of the Loan” means that portion of the Loan, as reasonably determined by the AfDF that is treated as a grant contribution for purposes of burden-sharing and any adjustment of voting rights to the Lender in its capacity as a State participant in the AfDF that may be deemed necessary by the AfDF.

[“Interest Payment Amount” means for each Interest Payment Date, the amount of interest payable on the Loan on such date.]

[“Interest Payment Date” means [each date on which interest on the Loan is payable, as specified in Section [3.1].]

[“Interest Period” means the initial period from and including the date of the [first] Disbursement Date to but excluding the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to but excluding the next following Interest Payment Date.<sup>25</sup>]

“Loan” means the loan to be provided by the Lender under this Agreement as specified in Article 2.

“Outstanding Loan Balance” means the amount of the Loan disbursed to the AfDF and outstanding from time to time.

“Payment Date” means any Interest Payment Date or Principal Repayment Date, as applicable and as reflected as such in the Repayment Schedule.

“Prepayment” means any repayment of the Outstanding Loan Balance in full or in part in advance of its maturity.

“Principal Repayment Amount” means for each Principal Repayment Date, the amount of principal of the Loan payable on such date.

“Principal Repayment Date” means each date on which all or any portion of the principal amount of the Loan is payable, as specified in [Section [3.2] and accordingly reflected in the Repayment Schedule].

“Repayment Schedule” means the schedule for repayment of the Loan attached hereto as Schedule [•].

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<sup>25</sup> This assumes that principal repayments and interest payments occur with the same periodicity.

“Fourteenth Replenishment” means the replenishment of the resources of the AfDF for new lending commitments for the period from January 1, 2017 to December 31, 2019 through a general increase in AfDF resources authorized by the AfDF Board of Governors.

“Specified Indebtedness” means any obligation in respect of money borrowed by the AfDF from a State participant (including any government agency or central bank of its State participants or such other entities as may be designated by its State participants) that remains outstanding concurrently with any portion of the Loan.

“Renminbi”, “RMB” and “CNY” each means the lawful currency of the People’s Republic of China.

“Sterling”, “£”, and “GBP” each means the lawful currency of the United Kingdom.

“Yen”, “¥” and “JPY” each means the lawful currency of Japan

1.2 In this Agreement, unless the context otherwise requires:

- (a) headings are inserted for convenience of reference only and do not affect the interpretation of this Agreement;
- (b) words importing the singular include the plural and vice versa; and
- (c) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document, but does not include any amendment, supplement, replacement or novation made in breach of this Agreement.

## **ARTICLE 2. THE LOAN**

2.1 The Lender irrevocably and unconditionally agrees to lend to the AfDF, on the terms and conditions set forth or referred to in this Agreement, the amount of [Canadian dollars (CAD [•])], Chinese Renminbi (CNY [•])], [United States dollars (\$[•])] [Euro (€[•])] [Sterling (£[•])] [Yen (¥[•])] as a Loan.

[2.2 The AfDF may request Disbursement[s] of the Loan [in full on or in three equal instalments within the Drawdown Period [\_\_\_\_\_]] by delivering to the Lender a Disbursement Request substantially in the form set out in Appendix I hereto. Upon receipt of the Disbursement Request, the Lender shall, within ----- Business Days, deposit the amount of the Loan requested into the account designated by the AfDF in the Disbursement Request.]

or

[2.2 The Lender shall disburse the Loan [in full within the Drawdown Period] and deposit the Disbursement Amount on or before each Disbursement Date into the account specified by the AfDF in Appendix [•].]

2.3 When making [each] such deposit, the Lender shall instruct its bank to include in its payment details in the information (remittance advice) field of its SWIFT payment message, relevant details indicating: the amount paid, that the payment is made by the Lender as a loan for ADF-14 and the date of the deposit.

2.4 The proceeds of the Loan shall not be earmarked for any particular purpose and shall be used as part of the AfDF's general resources.

2.5 The AfDF may, by notice and without penalty to the Lender, fully or partially cancel any amount of the Loan that is not withdrawn.

### **ARTICLE 3. INTEREST AND PRINCIPAL PAYMENTS**

3.1 Subject to the provisions of Section 3.[4], the AfDF shall repay the Outstanding Loan Balance in [thirty-five (35) equal] or [seventy (70)] semi-annual instalments commencing on the first Principal Repayment Date being the date [five (5)] years after the Disbursement Date in accordance with the Repayment Schedule in Appendix II.

[3.2 (a) Subject to the provisions of Section 3. [4], interest shall accrue on the Outstanding Loan Balance at a fixed rate of [•] per annum during each Interest Period. Interest shall accrue from the Disbursement Date, and shall be payable semi-annually in arrears on each Interest Payment Date. [The Interest Payment Dates are \_\_\_\_\_ [and \_\_\_\_\_] in each year.] The Interest Payment Amount shall be computed on the basis of the actual number of days elapsed and a year of three hundred and sixty (360) days.]

(b) If any portion of the Outstanding Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the AfDF shall pay a Default Interest Rate on such overdue amount in lieu of the interest rate specified in Section 3.2(a) above. Interest at the Default Interest Rate shall accrue from the thirty-first (31<sup>st</sup>) day after the due date in respect of such overdue amount until such overdue amount is fully paid.

3. [3] The Lender shall not have the right to demand any payment under this Agreement in advance of maturity.

3.[4] After giving not less than 3 months prior irrevocable written notice to the Lender, the AfDF may prepay the Outstanding Loan Balance, in whole or in part, without penalty, on the last day of any Interest Period.

## **ARTICLE 4. PAYMENT ARRANGEMENTS**

4.1 On each Payment Date the AfDF shall make payment of the Principal Repayment Amount [and Interest Payment Amount] to the Lender for value on such date.

4.2 Except as otherwise agreed by the parties, any payment under this Agreement shall be made in [CAD], [CNY], [USD], [JPY], [GBP], [EUR].

4.3 Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day unless the next Business Day falls within the next calendar month, in which case it shall be effected on the last Business Day of the then current calendar month.

4.4 All payments by the AfDF under this Agreement shall be made at such places as the Lender shall reasonably request in writing no less than ten (10) Business Days prior to the relevant payment date.

4.5 [All] payments required to be made by the Lender or the AfDF under this Agreement shall be calculated without reference to any set-off and shall be made free and clear of and without any deduction for or on account of any set-off.]

## **[ARTICLE 5. CONSENT OF LENDER TO DENOMINATION**

[5]. The Lender hereby grants its approval to the denomination of the Loan in any currency acceptable to the AfDF pursuant to Article 11 of its Agreement. The Lender further acknowledges that, in accordance with the provisions of Article 13 of the AfDF Agreement, whenever the par value in the International Monetary Fund of the currency of the Lender is in terms of the Unit of Account of the AfDF, the Lender shall act in accordance with the provisions of the said Article 13, as well as that the proceeds of the Loan shall be freely used and exchanged without restriction.]

## **ARTICLE [6]. ADJUSTMENT OF VOTING RIGHTS IN FAVOR OF A LENDER**

[6]. The AfDF shall adjust in favor of [the Lender][*insert name of member*], in its capacity as a State participant in the AfDF, voting rights corresponding to the Grant Element of the Loan on such terms as shall be approved by the Board of Governors of the AfDF in accordance with the AfDF Agreement.

## **ARTICLE [7]. SUCCESSION**

[7]. This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors or assignees; provided that either party to this Agreement may not assign, transfer, novate or dispose of any of its rights or obligations under this Agreement without the prior written consent of the other party to this Agreement (such consent not to be unreasonably withheld or delayed).

## **ARTICLE [8]. NOTICES**

[8].1 Any notice, request, consent, approval or waiver (hereinafter referred to generally as “notice”) required or permitted to be given or made under this Agreement shall be in writing in the English or French language. Such notice shall be deemed to have been duly given or made when it has been delivered by hand or by mail or facsimile (or other electronic means agreed between the parties in writing) to the party to which such notice is directed, at the following address (or at such other address as the party shall have designated by written notice to the party giving or making such notice).

(a) For the Lender:

[•]

Attention: [•]

Telephone: [•]

Facsimile: [•]

Email: [•]

(b) For the AfDF:

c/o African Development Bank  
Avenue Joseph Anoma  
01 BP 1387, Abidjan 01  
Côte d’Ivoire

Attention: Director, Resource Mobilization Department

Telephone: [•]

Facsimile: [•]

Email: [•]

## **ARTICLE [9]. AMENDMENTS AND WAIVERS; SEVERABILITY; COUNTERPARTS**

[9].1 No provision of this Agreement may be modified or supplemented except in a written agreement executed by authorized representatives of the parties hereto.

[9].2 No failure or delay in exercising any right, power or remedy under this Agreement shall impair such right, power or remedy, or operate, or be construed, as a waiver or variation of it or preclude its exercise at any subsequent time, and no single or partial exercise of any right, power or remedy shall preclude any other or further exercises thereof or the exercise of any other right, power or remedy.



[9].3 Neither party shall be deemed to have waived any of its rights under this Agreement, unless expressly so stated in a notice by the party waiving such a right to the other party.

[9].4 Any provision of this Agreement which is prohibited, invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, invalidity or unenforceability, without invalidating the remaining provisions hereof, and any such prohibition, invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[9].5 This Agreement may be executed in counterparts, each of which is an original and all of which together shall be deemed to constitute one and the same instrument.

#### **ARTICLE [10]. EFFECTIVENESS AND TERMINATION**

[10].1 This Agreement shall come into force and effect upon signature by the parties.

[10].2 This Agreement and all obligations of the parties under this Agreement shall forthwith terminate upon full payment of all amounts due and payable under this Agreement.

#### **ARTICLE [12]. ENFORCEABILITY; ARBITRATION**

[12].1 The rights and obligations of the AfDF and the Lender under this Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any state or political subdivision of the Lender to the contrary. Neither the AfDF nor the Lender shall be entitled in any proceeding under this Article to assert any claim that any provision of this Agreement is invalid or unenforceable because of any provision of the Agreement establishing the AfDF.

[12].2 The foregoing provision notwithstanding, any dispute, controversy or claim arising out of or relating to this Agreement which has not been settled by amicable agreement of the parties, shall be submitted to arbitration in accordance with the UNCITRAL Arbitration Rules in effect on the date of this Agreement, and the following provisions:

- (a) the appointing authority shall be the Secretary-General of the Permanent Court of Arbitration;
- (b) the place of arbitration shall be London, the United Kingdom; and
- (c) the language of the arbitral proceedings shall be English.

[12].3 Nothing in this Agreement shall operate as or be construed to constitute a waiver, renunciation or any other modification of any privilege or immunity of the AfDF under Chapter VIII of the Agreement establishing the AfDF or under any applicable law.

[12].4 The award of the Arbitral Tribunal shall be final and binding on the parties and enforceable in any court of competent jurisdiction. The parties shall carry out the award without delay.

### **ARTICLE [13]. MISCELLANEOUS**

[13].1 The obligations of AfDF under this Agreement are not the obligations of any member of the AfDF, or its government.

[13].2 Neither party shall disclose the contents of this Agreement, nor any non-public information or documentation received from the other party hereunder, in any communication, written or verbal, to any third party without the prior written consent of the other party.

[13].3 The following shall constitute a default by the AfDF under this Agreement: (a) any Specified Indebtedness of AfDF is not paid when due or within any originally applicable grace period; or (b) any Specified Indebtedness of the AfDF is declared to be or otherwise becomes due and payable prior to its original maturity as a result of the occurrence of an event of default.

**IN WITNESS** whereof, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names as of the date first above written.

**[NAME OF LENDER]**

**By:** \_\_\_\_\_  
**(Authorized Representative)**

**Name:**

**Title:**

**THE AFRICAN DEVELOPMENT  
FUND**

**By:** \_\_\_\_\_  
**(Authorized Representative)**

**Name:**

**Title:**

## Appendix I

### Account Details for Deposit of the Disbursement Amount

Account Name:	[•]
Account Number:	[•]
Swift:	[•]
ABA:	[•]
Name of Depository Bank:	[•]
Address of Depository Bank:	[•]
Reference:	[•]

When making such deposit, the Lender shall instruct its corresponding bank to include in the payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by the Lender for [*insert reference*], and the date of the deposit.

## Appendix II - Repayment Schedule

Principal Payment Due	Principal Amount of the Loan repayable (expressed as a percentage)*
On each ____ and ____: commencing ____ to and including _____	[•]%
On _____	[•]%

\* The percentages represent the percentage of the principal amount of the Loan to be repaid.

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# **Bridge Loan Agreement**

**between**

**[•]**

**and**

**THE AFRICAN DEVELOPMENT FUND**

**Dated [•]**

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## BRIDGE LOAN AGREEMENT

**AGREEMENT**, dated [•], between [•], [*name of donor*] (the “Lender”), as the lender; and the AFRICAN DEVELOPMENT FUND (“AfDF”), as the borrower.

**WHEREAS** AfDF’s Board of Governors have approved contracting financing from AfDF’s State participants in the context of the Fourteenth Replenishment of AfDF’s resources (“ADF-14”) and on such terms and conditions as may be approved from time to time;

**WHEREAS** the Lender has decided to further contribute to the AfDF by way of providing a loan in accordance with the provisions of this Agreement;

**WHEREAS** The AfDF has decided to accept such loan in accordance with the provisions of this Agreement;

**NOW, THEREFORE**, the parties hereto hereby agree as follows:

### ARTICLE 1. DEFINITIONS, INTERPRETATION AND CONSTRUCTION

1.1 In this Agreement, unless otherwise defined, or unless the context otherwise requires, terms used herein shall have the following meanings:

“Agreement” means this agreement and its schedules.

“Agreement establishing the AfDF” means AfDF’s Agreement effective on November 29, 1972 as has been amended and will be amended from time to time.

“Business Day” means any day (other than a Saturday or Sunday) when banks are generally open for business both in Abidjan, Côte d’Ivoire and [*Lender’s business capital*].

“Default Interest Rate” means the interest rate specified in Section 3.2(a) plus [•]%

“Disbursement Amount” means one third of the Loan or such other amount as may be agreed between the Lender and AfDF.

“Disbursement Date” means -----, 2017, -----, 2018 and -----, 2019 (or such other dates as may be agreed between the Lender and the AfDF) on which the proceeds of the Loan are disbursed and paid to the AfDF.

“Canadian Dollar” and “CAD” each means the lawful currency of Canada.

“Dollar”, “\$” and “USD” each means the lawful currency of the United States of America.

“Euro”, “€” and “EUR” each means the lawful currency of member states of the European Union that adopt the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on European Union.

“Grant Element of the Loan” means that portion of the Loan, as reasonably determined by the AfDF that is treated as a grant contribution for purposes of burden-sharing and any adjustment of voting rights to the Lender in its capacity as a State participant in the AfDF that may be deemed necessary by the AfDF.

[“Interest Payment Amount” means for each Interest Payment Date, the amount of interest payable on the Loan on such date.]

[“Interest Payment Date” means [each date on which interest on the Loan is payable, as specified in Section [3.1].]

[“Interest Period” means the initial period from and including the date of the [first] Disbursement Date to but excluding the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to but excluding the next following Interest Payment Date.<sup>26]</sup>

“Loan” means the loan to be provided by the Lender under this Agreement as specified in Article 2.

“Outstanding Loan Balance” means the amount of the Loan disbursed to the AfDF and outstanding from time to time.

“Payment Date” means any Interest Payment Date or Principal Repayment Date, as applicable and as reflected as such in the Repayment Schedule.

“Prepayment” means any repayment of the Outstanding Loan Balance in full or in part in advance of its maturity.

“Principal Repayment Amount” means for each Principal Repayment Date, the amount of principal of the Loan payable on such date.

“Principal Repayment Date” means each date on which all or any portion of the principal amount of the Loan is payable, as specified in [Section [3.2] and accordingly reflected in the Repayment Schedule].

“Repayment Schedule” means the schedule for repayment of the Loan attached hereto as Schedule [•].

“Fourteenth Replenishment” means the replenishment of the resources of the AfDF for new lending commitments for the period from January 1, 2017 to December 31, 2019 through a general increase in AfDF resources authorized by the AfDF Board of Governors.

“Renminbi” “RMB” and “CNY” each means the lawful currency of the People’s Republic of China.

“Specified Indebtedness” means any obligation in respect of money borrowed by the AfDF from a State participant (including any government agency or central bank of its State participants or

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<sup>26</sup> This assumes that principal repayments and interest payments occur with the same periodicity.



such other entities as may be designated by its State participants) that remains outstanding concurrently with any portion of the Loan.

“Sterling”, “£”, and “GBP” each means the lawful currency of the United Kingdom.

“Yen”, “¥” and “JPY” each means the lawful currency of Japan

1.2 In this Agreement, unless the context otherwise requires:

(d) headings are inserted for convenience of reference only and do not affect the interpretation of this Agreement;

(e) words importing the singular include the plural and vice versa; and

(f) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document, but does not include any amendment, supplement, replacement or novation made in breach of this Agreement.

## **ARTICLE 2. THE LOAN**

2.1 The Lender irrevocably and unconditionally agrees to lend to the AfDF, on the terms and conditions set forth or referred to in this Agreement, the amount of [United States dollars (\$[•])] [Euro (€[•])] [Sterling (£[•])] [Yen (¥[•])] as a Loan.

[2.2 The AfDF may request Disbursement[s] of the Loan in full or in three equal instalments within the Drawdown Period by delivering to the Lender a Disbursement Request substantially in the form set out in Appendix I hereto. Upon receipt of the Disbursement Request, the Lender shall, within ----- Business Days, deposit the amount of the Loan requested into the account designated by the AfDF in the Disbursement Request.]

or

[2.2 The Lender shall disburse the Loan in full or in three equal instalments within the Drawdown Period and deposit the Disbursement Amount on or before each Disbursement Date into the account specified by the AfDF in Appendix [•].]

2.3 When making [each] such deposit, the Lender shall instruct its bank to include in its payment details in the information (remittance advice) field of its SWIFT payment message, relevant details indicating: the amount paid, that the payment is made by the Lender as a loan for ADF-14 and the date of the deposit.

2.4 The proceeds of the Loan shall solely be invested in high grade treasury assets at AfDF Management’s discretion.

2.5 The AfDF may, by notice and without penalty to the Lender, fully or partially cancel any amount of the Loan that is not withdrawn.

### **ARTICLE 3. INTEREST AND PRINCIPAL PAYMENTS**

3.1 Subject to the provisions of Section 3.[4], the AfDF shall repay the Outstanding Loan Balance in [twenty (20)] semi-annual instalments, commencing on the first Principal Repayment Date being the date [ten (10)] years after the Disbursement Date in accordance with the Repayment Schedule in Appendix II.

[3.2 (a) Subject to the provisions of Section 3. [4], interest shall accrue on the Outstanding Loan Balance at a rate of [*specify interest rate*] per annum during each Interest Period. Interest shall accrue from the Disbursement Date, and shall be payable semi-annually in arrears on each Interest Payment Date. [The Interest Payment Dates are \_\_\_\_\_ [and \_\_\_\_\_] in each year.] The Interest Payment Amount shall be computed on the basis of the actual number of days elapsed and a year of three hundred and sixty (360) days.]

(b) If any portion of the Outstanding Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the AfDF shall pay a Default Interest Rate on such overdue amount in lieu of the interest rate specified in Section 3.2(a) above. Interest at the Default Interest Rate shall accrue from the thirty-first (31<sup>st</sup>) day after the due date in respect of such overdue amount until such overdue amount is fully paid.

3. [3] The Lender shall not have the right to demand any payment under this Agreement in advance of maturity.

3.[4] After giving not less than 3 months prior irrevocable written notice to the Lender, the AfDF may prepay the Outstanding Loan Balance, in whole or in part, without penalty, on the last day of any Interest Period.

### **ARTICLE 4. PAYMENT ARRANGEMENTS**

4.1 On each Payment Date the AfDF shall make payment of the Principal Repayment Amount [and Interest Payment Amount] to the Lender for value on such date.

4.2 Except as otherwise agreed by the parties, any payment under this Agreement shall be made in [USD] [JPY] [GBP] [EUR].

4.3 Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day unless the next Business Day falls within the next calendar month, in which case it shall be effected on the last Business Day of the then current calendar month.

4.4 All payments by the AfDF under this Agreement shall be made at such places as the Lender shall reasonably request in writing no less than ten (10) Business Days prior to the relevant payment date.

[4.5 [All] payments required to be made by the Lender or the AfDF under this Agreement shall be calculated without reference to any set-off and shall be made free and clear of and without any deduction for or on account of any set-off.]

## **ARTICLE 5. CONSENT OF LENDER TO DENOMINATION**

[5]. The Lender hereby grants its approval to the denomination of the Loan in any currency acceptable to the AfDF pursuant to Article 11 of its Agreement. The Lender further acknowledges that, in accordance with the provisions of Article 13 of the AfDF Agreement, whenever the par value in the International Monetary Fund of the currency of the Lender is in terms of the Unit of Account of the AfDF, the Lender shall act in accordance with the provisions of the said Article 13, as well as that the proceeds of the Loan shall be freely used and exchanged without restriction.]

## **ARTICLE [6]. ADJUSTMENT OF VOTING RIGHTS IN FAVOR OF A LENDER**

[6]. The AfDF shall adjust in favour of [the Lender][*insert name of member*], in its capacity as a State participant in the AfDF, voting rights corresponding to the Grant Element of the Loan on such terms as shall be approved by the Board of Governors of the AfDF in accordance with the AfDF Agreement.

## **ARTICLE [7]. SUCCESSION**

[7]. This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors or assignees; provided that either party to this Agreement may not assign, transfer, novate or dispose of any of its rights or obligations under this Agreement without the prior written consent of the other party to this Agreement (such consent not to be unreasonably withheld or delayed).

## **ARTICLE [8]. NOTICES**

[8].1 Any notice, request, consent, approval or waiver (hereinafter referred to generally as “notice”) required or permitted to be given or made under this Agreement shall be in writing in the English or French language. Such notice shall be deemed to have been duly given or made when it has been delivered by hand or by mail or facsimile (or other electronic means agreed between the parties in writing) to the party to which such notice is directed, at the following address (or at such other address as the party shall have designated by written notice to the party giving or making such notice).

(a) For the Lender:

[•]

Attention: [•]

Telephone: [•]

Facsimile: [•]

Email: [•]

(b) For the AfDF:

c/o African Development Bank  
Avenue Joseph Anoma  
01 BP 1387, Abidjan 01

Côte d'Ivoire

Attention: Director, Resource Mobilization Department  
Telephone: [•]  
Facsimile: [•]  
Email: [•]

#### **ARTICLE [9]. AMENDMENTS AND WAIVERS; SEVERABILITY; COUNTERPARTS**

[9].1 No provision of this Agreement may be modified or supplemented except in a written agreement executed by authorized representatives of the parties hereto.

[9].2 No failure or delay in exercising any right, power or remedy under this Agreement shall impair such right, power or remedy, or operate, or be construed, as a waiver or variation of it or preclude its exercise at any subsequent time, and no single or partial exercise of any right, power or remedy shall preclude any other or further exercises thereof or the exercise of any other right, power or remedy.

[9].3 Neither party shall be deemed to have waived any of its rights under this Agreement, unless expressly so stated in a notice by the party waiving such a right to the other party.

[9].4 Any provision of this Agreement which is prohibited, invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, invalidity or unenforceability, without invalidating the remaining provisions hereof, and any such prohibition, invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[9].5 This Agreement may be executed in counterparts, each of which is an original and all of which together shall be deemed to constitute one and the same instrument.

#### **ARTICLE [10]. EFFECTIVENESS AND TERMINATION**

[10].1 This Agreement shall come into force and effect upon signature by the parties.

[10].2 This Agreement and all obligations of the parties under this Agreement shall forthwith terminate upon full payment of all amounts due and payable under this Agreement.

#### **ARTICLE [12]. ENFORCEABILITY; ARBITRATION**

[12].1 The rights and obligations of the AfDF and the Lender under this Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any state or political subdivision of the Lender to the contrary. Neither the AfDF nor the Lender shall be entitled in any proceeding under this Article to assert any claim that any provision of this Agreement is invalid or unenforceable because of any provision of the Agreement establishing the AfDF.

[12].2 The foregoing provision notwithstanding, any dispute, controversy or claim arising out of or relating to this Agreement which has not been settled by amicable agreement of the parties, shall be submitted to arbitration in accordance with the UNCITRAL Arbitration Rules in effect on the date of this Agreement, and the following provisions:

- (c) the appointing authority shall be the Secretary-General of the Permanent Court of Arbitration;
- (d) the place of arbitration shall be London, the United Kingdom; and
- (c) the language of the arbitral proceedings shall be English.

[12].3 Nothing in this Agreement shall operate as or be construed to constitute a waiver, renunciation or any other modification of any privilege or immunity of the AfDF under Chapter VIII of the Agreement establishing the AfDF or under any applicable law.

[12].4 The award of the Arbitral Tribunal shall be final and binding on the parties and enforceable in any court of competent jurisdiction. The parties shall carry out the award without delay.

#### **ARTICLE [13]. MISCELLANEOUS**

[13].1 The obligations of AfDF under this Agreement are not the obligations of any member of the AfDF, or its government.

[13].2 Neither party shall disclose the contents of this Agreement, nor any non-public information or documentation received from the other party hereunder, in any communication, written or verbal, to any third party without the prior written consent of the other party.

[13].3 The following shall constitute a default by the AfDF under this Agreement: (a) any Specified Indebtedness of AfDF is not paid when due or within any originally applicable grace period; or (b) any Specified Indebtedness of the AfDF is declared to be or otherwise becomes due and payable prior to its original maturity as a result of the occurrence of an event of default.

**IN WITNESS** whereof, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names as of the date first above written.

**[NAME OF LENDER]**

**By:** \_\_\_\_\_

**(Authorized Representative)**

**Name:**

**Title:**

## THE AFRICAN DEVELOPMENT FUND

**By:** \_\_\_\_\_

**(Authorized Representative)**

**Name:**

**Title:**

### Appendix I

#### Account Details for Deposit of the Disbursement Amount

Account Name:	[•]
Account Number:	[•]
Swift:	[•]
ABA:	[•]
Name of Depository Bank:	[•]
Address of Depository Bank:	[•]
Reference:	[•]

When making such deposit, the Lender shall instruct its corresponding bank to include in the payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by the Lender for [*insert reference*], and the date of the deposit.

## Appendix II Repayment Schedule

Principal Payment Due	Principal Amount of the Loan repayable (expressed as a percentage)*
On each ____ and ____: commencing ____ to and including _____	[•]%
On _____	[•]%

\* The percentages represent the percentage of the principal amount of the Loan to be repaid.



## **Annex VIII: List of documents prepared for the ADF-14 Replenishment meetings**

### **Documents discussed during the 1<sup>st</sup> Meeting: Abidjan, Côte d'Ivoire, 17-18 March 2016**

1. Economic Outlook for ADF-Eligible Countries
2. Strategic Direction for ADF-14
3. Innovative instruments for ADF-14
4. Addressing Fragility in the Performance-Based Allocation System of ADF-14
5. The ADF-14 Financing Framework
6. Background Note on ADF and IDA Collaboration

### **Documents discussed during the 2nd Meeting: Abidjan, Côte d'Ivoire, 30 June - 01 July 2016**

1. ADF-14 Strategic direction and operational priorities (revised version)
2. ADF-14 Indicative Pipeline
3. Consultative Draft AfDB Group Results Management Framework
4. ADF-14 Resource Allocation Framework
5. ADF-14 Innovative finance instruments (revised version)
6. ADF Liquidity Policy
7. Options for use of ADF-14 Resources to Better Promote Private Sector Development
8. ADF-14 Financing Framework and Capacity (updated version)

### **Documents to be discussed during the 3rd Meeting: Luxemburg, 28-29 December 2016**

1. Options for Addressing Fragility in ADF-14, including the TSF
2. Options for use of ADF-14 Resources to Better Promote Private Sector Development
3. ADF-14 Financing Framework and Capacity including Innovative financing instruments
4. ADF-14 Deputies' Report

## **Annex IX: Resolution authorizing the Fourteenth Replenishment of the ADF**

### **AFRICAN DEVELOPMENT FUND**

#### **BOARD OF GOVERNORS**

##### **Resolution F/BG/2017/[ ]**

*Adopted by correspondence on [ ] 2017*

#### *The Fourteenth General Replenishment of the Resources of the African Development Fund*

**THE BOARD OF GOVERNORS,**

**HAVING REGARD TO:**

- (i) The relevant Articles of the Agreement (the “Agreement”) Establishing the African Development Fund (the “Fund”), in particular Articles 2 (Purpose), 4 (Resources), 7 (Additional Subscriptions by State Participants), 8 (Other Resources), 16 (Form and Terms of Financing), 19 (Technical Assistance), 23 (Board of Governors: Powers) and 26 (Board of Directors: Functions);
- (ii) The Report of the Board of Directors dated [ ] (**the “Report”**) on the implementation of Resolution F/BG/2016/01 authorizing the commencement of consultations for the fourteenth general replenishment of the resources of the Fund (**the “Fourteenth Replenishment”**), and in particular the recommendations of the Board of Directors contained in that Report;

**CONSIDERING THAT:**

- (i) In the Report, the Board of Directors, having regard to the needs and development requirements of the low income regional members of the African Development Bank (the “Bank”), has recommended that the Fund should undertake a substantial replenishment of its resources to finance the Fund’s programme for the three year period commencing 1 January 2017;
- (ii) The State participants and other Donors listed in Annex 1 hereto attached, have indicated their intention to subscribe to the Fourteenth Replenishment in accordance with the arrangements, terms and conditions set forth in this Resolution, it being understood that no commitment in that regard can be made by the State participants and Donors until all their internal approvals have been obtained;
- (iii) The State participants and other Donors listed in Annex 2 hereto attached, have indicated their intention to provide Concessional Donor Loans and Bridge Loans in accordance with the arrangements, terms and conditions set forth in the Report and this Resolution, it being understood that no commitment in that regard can be made by the State participants and Donors until all their internal approvals have been obtained;

**CONVINCED THAT:**

- (i) There may arise a need for a portion of the amount of subscriptions made hereunder to be provided to the Fund as advance subscriptions that may be used for operational commitments before the entry into effect of the Fourteenth Replenishment;
- (ii) It is desirable to authorize the Fund to provide financing in the form of grants in addition to loans in the circumstances referred to in the Report, and according to procedures to be determined by the Board of Directors of the Fund;
- (iii) It is desirable to encourage countries that have the economic capacity to be, but are not now, State participants, to participate in the Fourteenth Replenishment; and
- (iv) It is desirable to administer any remaining funds from previous replenishments during the Fourteenth Replenishment;

**RECALLING** the terms of Board of Governors' Resolution F/BG/2006/12 concerning the Multilateral Debt Relief Initiative ("MDRI"), and noting the updated cost estimates and the compensation amounts payable by donors during the Fourteenth Replenishment disbursement period;

**HEREBY ACCEPTS AND ENDORSES** the final Report of the Consultative Meetings on the Fourteenth Replenishment (the "ADF-14 Report");

**ADOPTS** its conclusions and recommendations; and therefore,

**DECIDES AS FOLLOWS:**

1. Increase in the Resources of the Fund

- (a) **Authorization.** The Fund is authorized to proceed with the Fourteenth Replenishment for a three-year period commencing **1 January 2017**.
- (b) **Subscriptions by State Participants and Donors.** The Fund is authorized to accept, from each of the State participants and Donors listed in Annex 1 to this Resolution, a Subscription in the amount specified for each such State participant and Donor in the applicable column of Annex 1.
- (c) **Additional Subscriptions and Contributions.** Additional subscriptions and other resources in excess of the amounts indicated in Annex 1 hereto, may be accepted by the Fund with the approval of the Board of Directors and may be counted as part of the resources for the Fourteenth Replenishment at the option of the State participant or Donor concerned.
- (d) **Concessional Donor Loans and Bridge Loans.** Concessional Donor Loans or Bridge Loans may be accepted by the Fund and the grant element of such loans will be counted as part of the State participant's or Donor's subscriptions and contributions hereunder.
- (e) **Relation to Future Replenishments.** No State participant or Donor making an additional subscription pursuant to sub-paragraph 1(c) shall be obliged, on the occasion of a future replenishment of the Fund, to increase its subscription solely by reason of having made such an additional Subscription under this Resolution.

*Paragraph 1(a) of this draft Resolution authorizes the Fund to proceed with the Fourteenth Replenishment. The proposal contained in this draft Resolution is to fix the Replenishment Period for three years commencing January 1, 2017. Provisions are made in Paragraph 1(c) of this Draft Resolution for the acceptance by the Fund of subscriptions and other resources in excess of the subscription amounts pledged by the State participants and Donors (which would be set out in Annex 1 to this Resolution), subject to approval by the Board of Directors. Paragraph 1(d) permits the Fund to contract Concessional Donor Loans and Bridge Loans from State participants or Donors, as the case may be.*

2. Instruments of Subscription by State Participants and Donors

- (a) **General Clause.** To make a subscription hereunder, each State participant or Donor shall deposit with the Fund an Instrument of Subscription formally confirming its intention to subscribe the amount specified in Annex 1 hereto, denominated in terms of the unit of obligation relating to the State participant or Donor, as determined pursuant to paragraph 3 hereof.
- (b) **Unqualified Subscription.** Except as specified in sub-paragraph (c) of this paragraph, such Instrument of Subscription shall constitute an unqualified commitment by the concerned State participant or Donor to pay the amount subscribed in the manner, and on the terms, set forth or contemplated by this Resolution. For the purpose of this Resolution, such subscription shall be referred to as an “**Unqualified Subscription**”.
- (c) **Qualified Subscription.** As an exceptional case, where an unqualified commitment cannot be given by a State participant or Donor due to its legislative practice, the Fund may accept from that State participant or Donor an Instrument of Subscription which expressly contains the qualification that payment of some or all instalments of its subscription is subject to subsequent budgetary appropriation. Such an Instrument of Subscription shall, however, include an undertaking by the State participant or Donor to exercise its best efforts to: (a) obtain such appropriation for the full amount specified in paragraphs 6(b) and 8(b) of this Resolution, by the payment dates indicated in paragraph 6 hereof; and (b) to notify the Fund as soon as the appropriation relative to each instalment is obtained. For the purpose of this Resolution, a subscription in this form shall be referred to as a “**Qualified Subscription**”, but shall be deemed to be unqualified to the extent that appropriation has been obtained and the Fund has been notified by the State participant or Donor.

3. Denomination of Subscriptions

State participants and Donors shall denominate their subscriptions in Special Drawing Rights of the International Monetary Fund (SDRs), in a currency used for the valuation of the SDR, or in the currency of the State participant or Donor, if such currency is freely convertible (the “unit of obligation”) and the economy of the State participant or Donor did not experience, in the period from **1 January 2014 to 31 December 2016**, a rate of inflation in excess of [ten per cent (10%)] per annum on average, as determined by the Fund. State participants and Donors that are in a position to do so are invited to subscribe to the Fourteenth Replenishment in SDR.

*The proposal contained in Paragraph 3 is for Subscriptions to be denominated in: (i) SDRs; or (ii) a currency used for the valuation of the SDR – which are currently the United States Dollar, Pound Sterling, Japanese Yen, Euro and Renminbi; or (iii) the currency of the State participant or Donor if the currency is freely convertible and provided the economy of the State participant or Donor has not experienced a rate of inflation in excess of 10% p.a. on average, as determined by the Fund, during the specified period agreed by the Deputies.*

4. Effective Date

The Fourteenth Replenishment shall come into effect on the date when State participants and Donors shall have deposited with the Fund Instruments of Subscription representing an aggregate amount equivalent to at least thirty per cent (**30%**) of the total intended subscriptions set forth in **Annex 1 to this Resolution** (hereinafter referred to as “the Effective Date”), provided that this date shall not be later than **31 March 2017**.

5. Additional Contribution to the Private Sector Credit Enhancement Facility

In recognition of the role that the private sector plays in the development of the economies of the low income regional member countries of the African Development Bank, an amount equivalent to [UA 200 million] of the total available resources under the Fourteenth Replenishment shall be set aside as an additional contribution to the Private Sector Credit Enhancement Facility.

6. Payment of Subscriptions

(a) **Payment Dates.** Except as otherwise provided in this Resolution each subscription made under this Resolution shall be paid in three equal annual instalments in SDRs, currencies used for the valuation of the SDR or in freely convertible currencies acceptable to the Fund. Subject to paragraphs 4 and 8 hereof and unless otherwise determined by the Board of Directors, the first of such instalments shall be paid on or before **15 January 2017**, or not later than 30 days after the Effective Date; with the second and third instalments falling due, respectively, not later than **15 January 2018** and **15 January 2019**. As an exceptional case, where a State participant or Donor cannot, due to its legislative procedures, make payment in respect of the first instalment by the date determined pursuant to the second sentence of this subparagraph, such instalment shall be paid not later than 30 days after the date of the deposit of the relevant Instrument of Subscription.

(b) **Payment Dates for Qualified Subscriptions.** Payments in respect of a Qualified Subscription shall be made within 30 days as, and to the extent that, the relative subscription becomes unqualified and subject to the annual payment dates specified in sub-paragraph (a) above.

A State participant or Donor which has deposited an Instrument of Subscription for a Qualified Subscription shall inform the Fund of the status of its subscription not later than 30 days after the annual payment dates specified in subparagraph (a) above.

(c) **Programme of Payments.** At the time of depositing its Instrument of Subscription, each State participant or Donor shall indicate to the Fund its proposed programme of instalment payments on the basis of the arrangements set forth in the foregoing provisions of this paragraph 6.

(d) **Optional Arrangements.** Any State participant or Donor may, by a written declaration, indicate to the Fund that it intends to make payment at earlier dates or in fewer instalments or different proportions not less favourable to the Fund than those specified in sub-paragraphs (a) and (b) above.

(e) **Method of Payment.** Payments in respect of each subscription shall be made in cash or, at the option of the State participant or Donor making the payment, by the deposit of non-negotiable non-interest-bearing notes or similar obligations of the State participant or Donor, encashable on demand by the Fund at their par value in accordance with the terms of sub-paragraph (f).

(f) **Encashment of Notes.** Unless otherwise decided by the Board of Directors, the Fund will encash the notes or similar obligations of State participants or Donors in accordance with the standard ten-year encashment schedule set out in Annex 3. With respect to a State participant or Donor that is

unable to comply with one or more encashment requests, the Fund may agree with that State participant or Donor on a revised encashment schedule for such notes or similar obligations that yields at least an equivalent value to the Fund.

- (g) **Accelerated Encashments.** Notwithstanding paragraph 6(f) of this Resolution, a State participant or Donor may request at the time of the deposit of its Instrument of Subscription or any time thereafter to use the investment income derived from the accelerated encashment of its instalment payments to (i) increase its contributions and burden share in the replenishment, (ii) pay a discounted amount on its subscription while maintaining its burden share, (iii) to reduce the Fourteenth Replenishment's technical gap, (iv) pay for other commitments to the Fund (such as grant or MDRI compensation), or (v) meet their past due payments on past and future replenishments, subject to the terms and conditions set out in the Report.
- (h) **Conditions for Payment.** Notwithstanding the foregoing provisions of this paragraph 6, no State participant or Donor shall be obliged to make any payment except when its subscription has become available for operational commitment as specified in paragraph 8 of this Resolution.

*The proposal contained in Paragraph 6 of this draft Resolution is for subscriptions to be paid in three equal annual instalments in a unit of obligation acceptable to the Fund. Specific proposals are made about when such instalments should be paid. These proposals are subject to agreement by the Deputies. It is worth noting that State participants and Donors are allowed to specify earlier payment dates and different proportions provided this optional arrangement is no less favourable to the Fund than the arrangement applicable generally in accordance with the agreement amongst Deputies.*

## 7. Advance Subscriptions

- (a) **Advance Subscription Level.** In order to avoid an interruption in the Fund's ability to make operational commitments pending the effectiveness of the Fourteenth Replenishment, and if the Fund shall have received Instruments of Subscription from State participants and Donors whose subscriptions aggregate not less than the equivalent of **twenty per cent (20%) of the total amount of intended subscriptions listed in Annex 1 to this Resolution**, the Fund may deem, prior to the Effective Date, an amount equivalent to the first commitment tranche of each subscription or contribution for which an Instrument of Subscription has been deposited by a State participant or Donor and, where applicable, a duly executed concessional loan agreement for a Concessional Donor Loan or a Bridge Loan has been received by the Fund as an advance subscription..
- (b) **Uniformity of Terms.** The terms and conditions applicable to subscriptions under this Resolution shall apply also to advance subscriptions until the Effective Date, when such subscriptions shall be deemed to constitute payment towards the amount due from each State participant or Donor for its subscription.
- (c) **Interim Voting Rights.** In the event that the Fourteenth Replenishment shall not have become effective by **1 January 2017**, voting rights for advance subscriptions shall, to the extent of payment therefore, be allocated to each State participant making an advance subscription as if it had been made as a subscription under this Resolution, and each State participant not making an advance subscription shall have the opportunity to exercise its pre-emptive rights with respect to such subscription on such conditions as the Fund shall specify.
- (d) **Utilisation of Advance Subscriptions for Operational Commitments.** Without prejudice to the provisions of the preceding sub-paragraphs, any State participant or Donor may, if it chooses, notify the Fund that its subscription, or a part thereof, shall be regarded as an advance subscription which may be available to the Fund for the purpose of making commitments prior to the attainment of the advance subscription level specified in sub-paragraph (a) of this paragraph. Upon the attainment of

the advance subscription level, the provisions set forth in sub-paragraphs (b) and (c) of this paragraph shall be applicable to any amount made available to the Fund pursuant to the provisions hereof.

*Pending the effectiveness of the Fourteenth Replenishment, deposit with the Fund of Instruments of Subscription representing not less than 20% of the total amount of intended Subscriptions listed in Annex 1 to this Resolution will trigger the Advance Subscription provisions. The rationale for this provision is to minimize any disruption in the operations of the Fund pending the effectiveness of the Fourteenth Replenishment. This should also facilitate a smooth transition from the ADF-13 Replenishment period to the ADF-14 Replenishment Period.*

8. Commitment Authority

(a) **Unqualified Subscriptions.** For the purpose of operational commitment and financing by the Fund under its operational programme for the period of the Fourteenth Replenishment, each Unqualified Subscription shall be divided into three equal tranches, and shall be available for operational commitment as follows:

(i) the First Tranche: on the Effective Date, provided that advance subscriptions may become available for operational commitment prior to the Effective Date pursuant to paragraph 7 of this Resolution;

(ii) the Second Tranche: as from **1 January 2018**; and

(iii) the Third Tranche: as from **1 January 2019**.

(b) **Qualified Subscriptions.** Each Qualified Subscription shall become available for operational commitment as, and to the extent that, it becomes unqualified; which should occur in tranches of at least one third of the total amount of each subscription during the years **2017, 2018 and 2019**, respectively.

(c) **Exceptions.** Notwithstanding the preceding sub-paragraphs, any State participant or Donor may authorize the use of the tranches of its subscription for operational commitment on a schedule more favourable to the Fund than that specified in sub-paragraphs (a) and (b) above.

9. Consultative Meeting of State Participants and Donors

If, in the course of the Fourteenth Replenishment, delays in the deposit of Instruments of Subscription, in the release of tranches of subscription for operational commitment pursuant to paragraph 8 hereof or in the payment of subscriptions cause or threaten to cause a suspension in the Fund's lending or grant operations or otherwise prevent the substantial attainment of the goals of the Fourteenth Replenishment, the Fund shall, at the direction of the Board of Directors, convene a meeting of representatives of State participants and Donors to review the situation and agree on practical steps aimed at fulfilling the conditions necessary for the continuation of the Fund's operations or for the substantial attainment of those goals.

10. General

(a) **Allocation of Voting Rights.** For the purpose of determining the proportionate share of a State participant of the aggregate votes of the State participants under Article 29(3) of the Agreement and to the extent that payment has been made, each increase in subscriptions by a State participant hereunder, shall be added to the subscriptions made by it under Articles 6 and 7 of the Agreement on the 31st of March, 30th of June, 30th of September and 31st of December of each year beginning with the coming into effect of this Resolution. In addition, each State participant that has provided



a Concessional Donor Loan or a Bridge Loan in the amount provided in Annex 2 will be notified by the Fund of the grant element determined by the Fund with respect to such loans. The grant elements of such loans shall be recognized in a manner similar to how the Fund recognizes compensation provided under the MDRI consistent with Resolution F/BG/2006/12 and the provisions of this sub-paragraph of this Resolution following payment to the Fund of such loans. Likewise, cumulative compensation for grants received from State participants shall be factored into the computation of the voting rights of State participants.

- (b) **Acceptance by State Participants.** Each State participant accepts the provisions of sub-paragraph (a) herein to the extent that its acceptance is required under Article 29(3) of the Agreement.
- (c) **Selection of Executive Directors.** For the purposes of Article 27(6)(b) of the Agreement, selections to the Board of Directors shall take place during the annual meeting of the Board of Governors of the Fund in the year **2019**.
- (d) **Maintenance of Value.** The rights and obligations of State participants making additional subscriptions pursuant to this Resolution, of other State participants, of the Bank, and of the Fund, in respect of the additional subscriptions provided for in this Resolution shall (except as otherwise provided for in this Resolution) be the same as those which govern the initial subscriptions of original participants made pursuant to Article 6 of the Agreement, save that for the purpose of the valuation of additional subscriptions authorised by this Resolution, paragraphs (1) and (2) of Article 13 of the Agreement are hereby waived and shall not be applicable.
- (e) **Administration of Subscriptions under previous Replenishments.** On the Effective Date of the Fourteenth Replenishment, any funds, receipts, assets or other resources held by the Fund under previous Replenishments will be administered under the Fourteenth Replenishment in accordance with the terms and conditions of the Fourteenth Replenishment. The Fund is authorized to use such funds to provide financing in the form of loans and grants.
- (f) **General Authorization.** The Board of Directors shall take all such measures, as shall be necessary or expedient, for the proper implementation of this Resolution in the light of the policy objectives and the operational guidelines set out in the Report.

*In accordance with Articles 6, 7 and 13(1) of the Agreement, State participants were under an obligation to maintain the free convertibility and value of the currencies used for their initial subscriptions and subscriptions made under the First Replenishment. Likewise, the Fund under Article 13(2) of the Agreement was obligated to return to a State participant an amount of the State participant's currency if the par value of such participant's currency has increased in terms of the Unit of Account. Since the Second Replenishment, the Fund, the Bank and State participants have agreed to waive the maintenance of value provisions for each replenishment, without adversely affecting the rights and obligations acquired by virtue of the initial subscriptions and subscriptions under the First Replenishment.*

## 11. Exchange Rates

Subscriptions made under this Resolution, as shown against each State participant and Donor in Annex 1, have been determined on the basis of exchange rates expressed in terms of currency units per SDR, as given by the International Monetary Fund, averaged daily against a synthetic SDR during the six month period commencing **3 April 2016** and ending on and including **3 October 2016**.

*Given the introduction of the Chinese Renminbi (RMB) in the SDR basket in October 2016, and in order to better reflect the performance of the revised SDR vis-à-vis other currencies of subscription, ADF-14's exchange rates were determined against a synthetic SDR reconstructed by the Fund for the 6-month averaging period observed from 3 April to and including 3 October 2016. The reconstruction exercise fully reflected the methodology used by the International Monetary Fund for determining the daily valuation of the SDR, as well as the new currency amounts determined and published by the IMF on 1 October 2016.*

\* **GENERAL COUNSEL'S NOTE:** *The italicized text in boxes throughout this Resolution is for explanatory purposes only and shall not be binding on State participants and Donors.*

## Subscriptions to the Fourteenth Replenishment of the African Development Fund as of 13 February, 2017

STATE PARTICIPANTS / ETATS PARTICIPANTS	ADF-14 PLEDGES / INTENTIONS DE SOUSCRIPTIONS AU FAD-14						TOTAL SUBSCRIPTION FOR ADF-14 / SOUSCRIPTIONS TOTALES AU FAD-14		ADF-9 TO ADF-11 GRANT COMPENSATION / COMPENSATION DES DONNS DU FAD-9 AU FAD-11		SUBSCRIPTION TO ADF-14 AND GRANT COMPENSATION AMOUNT DUE / SOUSCRIPTIONS AU FAD-14 ET COMPENSATION DES DONNS		MDRI COMPENSATION / COMPENSATION IADM			TOTAL CONTRIBUTIONS DURING ADF-14 PERIOD / CONTRIBUTIONS TOTALES DURANT LA PERIODE DU FAD-14	
	BURDEN SHARE / QUOTE-PART	SUBSCRIPTION in UA / SOUSCRIPTIONS en UC	EXCHANGE RATE / TAUX DE CHANGE	UNIT OF OBLIGATION / DEVISE DE SOUSCRIPTION	SUBSCRIPTION in CURRENCY / SOUSCRIPTIONS en DEVISE	GRANT ELEMENT in UA / ELEMENT DON en UC	IN UA / EN UC	IN CCY / EN DEVISE	IN UA / EN UC	IN CCY / EN DEVISE	IN UA / EN UC	IN CCY / EN DEVISE	IN UA / EN UC	UNIT OF OBLIGATION / DEVISE DE SOUSCRIPTIONS	IN CCY / EN DEVISE	IN UA / EN UC	IN CCY / EN DEVISE
ANGOLA / ANGOLA	0,125%	5 204 163	1,24900	EUR	6 500 000	-	5 204 163	6 500 000	0	0	5 204 163	6 500 000				5 204 163	6 500 000
ARGENTINA / ARGENTINE	0,000%	0	1,40182	USD	0	-	0	0	0	0	0	0					
AUSTRIA / AUTRICHE <sup>1</sup>	2,200%	91 867 933	1,24900	EUR	114 743 049	-	91 867 933	114 743 049	1 006 366	1 256 951	92 874 299	116 000 000	7 393 984	EUR	9 235 086	100 268 283	125 235 086
BELGIUM / BELGIQUE <sup>1,8</sup>	1,381%	57 646 117	1,24900	EUR	72 000 000	-	57 646 117	72 000 000	1 059 553	1 323 381	58 705 670	73 323 381	9 652 510	EUR	12 055 985	68 358 179	85 379 366
BRAZIL / BRESIL	0,000%	0	1,40182	USD	0	-	0	0	68 137	95 516	68 137	95 516				68 137	95 516
CANADA / CANADA <sup>1,2,8,9</sup>	4,291%	179 161 967	1,81735	CAD	325 600 000	-	179 161 967	325 600 000	2 971 059	5 399 454	182 133 026	330 999 454				182 133 026	330 999 454
CHINA / CHINE <sup>1,2</sup>	2,067%	86 291 887	9,27086	RMB	800 000 000	-	86 291 887	800 000 000	1 102 777	10 223 689	87 394 663	810 223 689	10 224 893	USD	14 333 459	97 619 556	N/A
DENMARK / DANEMARK <sup>1,2,8</sup>	1,599%	66 742 440	1,24900	EUR	83 361 307	-	66 742 440	83 361 307	1 045 489	1 305 816	67 787 929	84 667 124	6 774 055	DKK	62 955 965	74 561 984	N/A
EGYPT / EGYPT <sup>1</sup>	0,034%	1 426 717	1,40182	EUR	2 000 000	-	1 426 717	2 000 000			1 426 717	2 000 000				1 426 717	2 000 000
FINLAND / FINLANDE <sup>1,3</sup>	1,171%	48 888 077	1,24900	EUR	61 061 208	-	48 888 077	61 061 208	1 031 767	1 288 677	49 919 844	62 349 885	9 340 645	EUR	11 666 466	59 260 489	74 016 351
FRANCE / FRANCE <sup>1,4,8</sup>	8,534%	292 233 787	1,24900	EUR	365 000 000	64 096 141	356 329 928	445 056 080	5 801 378	7 245 921	298 035 165	372 245 921	57 305 304	EUR	71 574 324	535 484 584	668 820 245
GERMANY / ALLEMAGNE <sup>1</sup>	9,671%	403 800 395	1,24900	EUR	504 346 694	-	403 800 395	504 346 694	4 846 522	6 053 306	408 646 918	510 400 000	41 160 274	EUR	51 409 183	449 807 192	561 809 183
INDIA / INDE <sup>1,5</sup>	0,319%	10 656 970	93,83530	INR	1 000 000 000	2 653 159	13 310 130	1 248 960 000	113 813	10 679 672	10 770 783	1 010 679 672	1 083 657	INR	101 685 255	22 511 410	1 127 304 081
ITALY / ITALIE <sup>1</sup>	4,729%	197 423 897	1,24900	EUR	246 582 447	-	197 423 897	246 582 447	2 736 231	3 417 553	200 160 128	250 000 000	21 769 309	EUR	27 189 867	221 929 437	277 189 867
JAPAN / JAPON <sup>1,6</sup>	7,261%	234 701 744	147,20200	JPY	34 548 566 120	68 470 846	303 172 590	44 627 611 531	4 746 536	698 699 628	239 448 280	35 247 265 748	41 608 680	JPY	6 124 880 980	781 056 961	114 973 146 728
KOREA / COREE <sup>1</sup>	1,500%	62 627 632	1 599,82000	KRW	100 192 937 838	-	62 627 632	100 192 937 838	429 431	687 013 031	63 057 063	100 879 950 869	3 960 434	KRW	6 335 980 862	67 017 497	107 215 931 731
KUWAIT / KOWEIT	0,203%	8 462 477	1,40182	USD	11 862 870	-	8 462 477	11 862 870	109 941	154 117	8 572 418	12 016 987	1 039 925	USD	1 457 788	9 612 344	13 474 775
LIBYA / LYBIE	0,000%	0	1,40182	USD	0	-	0	0	0	0	0	0					
LUXEMBOURG / LUXEMBOURG <sup>1,10</sup>	0,200%	8 356 173	1,24900	EUR	10 436 860	-	8 356 173	10 436 860	0	0	8 356 173	10 436 860				8 356 173	10 436 860
THE NETHERLANDS / PAYS-BAS <sup>1,11</sup>	3,579%	149 421 895	1,24900	EUR	186 627 947	-	149 421 895	186 627 947	2 574 877	3 216 021	151 996 772	189 843 968	20 553 023	EUR	25 670 726	172 549 795	215 514 694
NORWAY / NORVEGE <sup>1</sup>	3,333%	139 162 615	11,61950	NOK	1 617 000 000	-	139 162 615	1 617 000 000	2 369 637	27 533 993	141 532 251	1 644 533 993	22 043 923	NOK	256 140 243	163 576 174	1 900 674 235
PORTUGAL / PORTUGAL <sup>1</sup>	0,182%	7 610 970	1,24900	EUR	9 506 101	-	7 610 970	9 506 101	395 435	493 899	8 006 405	10 000 000	3 519 601	EUR	4 395 981	11 526 006	14 395 981
SAUDI ARABIA / ARABIE SAOUDITE <sup>2</sup>	0,342%	14 267 167	1,40182	USD	20 000 000	-	14 267 167	20 000 000	244 474	342 708	14 511 641	20 342 708	1 874 968	USD	2 628 368	16 386 609	22 971 076
SOUTH AFRICA / AFRIQUE DU SUD <sup>1</sup>	0,188%	7 851 528	20,37820	ZAR	160 000 000	-	7 851 528	160 000 000	81 343	1 657 630	7 932 871	161 657 630				7 932 871	161 657 630
SPAIN / ESPAGNE <sup>7</sup>	0,000%	0	1,24900	EUR	0	-	0	0	1 499 136	1 872 421	1 499 136	1 872 421	1 206 126	EUR	1 506 452	2 705 262	3 378 872
SWEDEN / SUEDE <sup>1</sup>	4,108%	171 528 931	11,74110	SEK	2 013 938 327	-	171 528 931	2 013 938 327	2 635 926	30 948 673	174 164 857	2 044 887 000	24 908 387	SEK	292 451 867	199 073 244	2 337 338 867
SWITZERLAND / SUISSE <sup>1</sup>	3,013%	125 795 088	1,36447	CHF	171 643 623	-	125 795 088	171 643 623	1 745 289	2 381 395	127 540 377	174 025 018	16 063 238	USD	22 517 769	143 603 615	N/A
TURKEY / TURQUIE <sup>1</sup>	0,017%	713 358	4,11341	TRY	2 934 335	-	713 358	2 934 335	0	0	713 358	2 934 335				713 358	2 934 335
UNITED KINGDOM / ROYAUME-UNI <sup>1</sup>	10,647%	444 522 602	1,02357	GBP	455 000 000	-	444 522 602	455 000 000	4 978 415	5 095 756	449 501 017	460 095 756	44 156 676	GBP	45 197 449	493 657 693	505 293 205
UNITED STATES OF AMERICA / ETATS-UNIS <sup>1</sup>	9,852%	411 357 831	1,40182	USD	576 649 635	-	411 357 831	576 649 635	5 956 803	8 350 365	417 314 634	585 000 000	52 761 607	USD	73 962 275	470 076 240	658 962 275
<b>TOTAL DONOR CONTRIBUTIONS (a) SOUSCRIPTIONS DES DONATEURS</b>	<b>80,55%</b>	<b>3 227 724 359</b>				<b>135 220 146</b>	<b>3 362 944 505</b>		<b>49 550 336</b>				<b>398 401 218</b>			<b>4 366 476 999</b>	
SUPPLEMENTARY CONTRIBUTIONS (b) SOUSCRIPTIONS SUPPLEMENTAIRES	0,03%	1 253 426															
TECHNICAL GAP (c) DEFICIT TECHNIQUE	19,42%	810 977 519															
<b>REPLENISHMENT LEVEL (d) = (a)+(b)+(c) NIVEAU DE RECONSTITUTION</b>	<b>100,000%</b>	<b>4 175 175 450</b>															
<b>NET CONCESSIONAL DONOR LOANS (e) PRET CONCESSIONNELS NET</b>		<b>116 047 974</b>															
<b>ADVANCE COMMITMENT CAPACITY (f) CAPACITE D'ENGAGEMENT ANTICIPE</b>		<b>743 808 915</b>															
TOTAL RESOURCES - GAP INCLUDED (d)+(e)+(f) TOTAL DES RESSOURCES - DEFICIT INCLUS		5 035 032 339															
<b>TOTAL RESOURCES - GAP EXCLUDED (d)+(e)-(c) TOTAL DES RESSOURCES - DEFICIT EXCLU</b>		<b>4 224 054 820</b>															

Notes: 1 - Pledge subject to internal, legislative, parliamentary, state council and/or council of ministers approval. 2 - Will use acceleration. 3 - Finland pledges EUR 61.51 million however the encashment profile selected by the country leads to a shortfall of EUR 450,115, which is reflected in the table. 4 - Concessional Donor Loan of EUR 225 million, 40-year with 5-year grace period and 0% interest rate. 5 - Bridge Loan of USD equivalent of INR 1 Billion, 20-year with 10-year grace period and coupon of 0.42% SDR equivalent. 6 - Bridge Loan of UA 500 million equivalent, 20-year with 10-year grace period and coupon of 0.01% in currency. 7 - Amount to be determined. 8 - ADF-13 contribution includes accelerated encashment credit amount. 9 - Basic contribution in ADF-14 (i.e. excluding accelerated encashment) represents a 5.27% increase in CAD vs ADF-13 basic contribution. 10 - Supplementary contribution from Luxembourg. to reduce the technical gap. 11 - The Netherlands pledges EUR 191.918 million, including grant compensation, however, the encashment profile selected by the country leads to a shortfall of EUR 2,074,391, which is reflected in the table.

**State participants providing a Concessional Donor Loan or Bridge Loan as of 13 February, 2017**

Contributing countries / Pays contributeurs	Type of Loan / Type de prêt	Loan amount / Montant du prêt				Loan terms / Conditions de prêt					Total subscription / Souscription totale (UA)
		Nominal Loan in UA / Prêt en UC	Currency / Devise	FX / Taux de change	Nominal Loan (in currency / prêt en devise	Grace Period and Maturity / Période de grâce et Echéance	Coupon rate in UA terms / Taux d'intérêt en UC	Coupon rate in currency terms / Taux d'intérêt en devise	Grant Element embedded into the loan (in UA) / Elément don du prêt (en UC)	Buy-down Grant (in UA) / Don pour réduction d'intérêt (en UC)	
France	Concessional Donor Loan	180,144,115	EUR	1.24900	225,000,000	10 / 40-year	0.53%	0%	64,096,141 (35.6%)	/	472,377,902
India / Inde	Bridge Loan	10,656,970	USD	1.40182	14,939,154	10 / 20-year	0.42%	1%	2,653,159 (24.9%)	/	21,313,940
Japan / Japon	Bridge Loan	500,000,000	JPY	147.202	73,601,000,000	10 / 20-year	1.41% <sup>27</sup>	0.01%	68,470,846 (13.7%)	21,723,204	734,701,744

<sup>27</sup> Effective interest rate after interest rate buy-down.

**ADF-14 Encashment Schedule**

Encashment Year	Annual rate of encashment of subscription (%)
2017	10.78
2018	13.15
2019	15.77
2020	10.29
2021	10.48
2022	9.86
2023	8.91
2024	8.52
2025	8.85
2026	3.39