

**African Development Fund (ADF)
Second ADF-12 Replenishment Meeting
Cape Town, South Africa, 22-23 February 2010**

Chair's Summary

1. ADF Deputies and observers from international development institutions met in Cape Town, South Africa on 22-23 February 2010 to discuss the 12th replenishment of the African Development Fund (ADF-12). They were joined in their discussions by the Ministers of Finance of Burkina Faso, Liberia and Uganda.
2. In opening the meeting, the Minister of Finance of South Africa, the Rt. Hon. Pravin Gordhan, highlighted the challenges of the global economic context, the negative impact that the financial crisis has had on African growth and the fragility of recovery. He reminded participants of the importance of international solidarity in the face of the crisis and the need to fully incorporate Africa into the global economy as a pillar of future growth.
3. Opening the discussions, the ADB President, Dr. Donald Kaberuka underlined the risks and uncertainty for Africa as a result of the global financial crisis. He highlighted that the Fund's sizeable pipeline of potential projects for the ADF-12 period was a clear indication of Africa's need for significant investment in order to further promote regional integration and adapt to climate change. He emphasized the leading role that the Fund has played in regional operations and highlighted the Fund's support to fragile states and its selective use of budget support. Drawing on feedback from Deputies during the ADF-11 Mid-term Review, he reaffirmed Management's determination to strengthen the current strategic focus and the need to consolidate, fine-tune and innovate within the Bank's existing core pillars. President Kaberuka also reminded participants of the ongoing discussions regarding the General Capital Increase as an important complement to the ADF-12 replenishment.
4. President Kaberuka and Participants thanked the Government of South Africa for its warm hospitality and excellent arrangements. Participants commended Management for the generally high quality of the documents and preparations, which facilitated fruitful discussions. The meeting was chaired by Geoffrey Lamb and this Chair's summary is issued under his responsibility.

ADF-12 Strategic Directions

5. Participants reaffirmed their support for the Fund's existing strategic priorities as laid out in ADF-12 Strategic Directions discussion paper: developing infrastructure, strengthening governance, promoting regional integration and supporting fragile States. They urged full attention, within these strategic priorities, to the key cross-cutting themes of private sector development, climate change adaptation and mitigation, food security and gender, and urged Management to mainstream these cross-cutting issues in the Fund's strategies and operations during ADF-12.
6. Participants reaffirmed their commitment to support Africa's development, particularly in light of the need to make progress towards the Millennium Development Goals. They acknowledged the important role that the Fund, as an African institution, plays in the aid architecture and their confidence in the Fund as a development partner. Several participants highlighted the challenging fiscal context donors faced in the ADF-12 replenishment, which would put even greater emphasis on strategic priorities and performance. They identified key variables that would influence the ADF-12 replenishment level, including efforts to mobilize internal resources and continued delivery on institutional reforms, particularly decentralization, and alignment and harmonization. Participants urged Management to put forward a results-based action plan that clearly links strategy, capacity and deliverables.

Regional Operations

7. Participants noted the Fund's important role in integrating African economies and recognized its comparative advantage in delivering regional operations (ROs). Some participants suggested that the Bank could play an even greater role by leveraging its strength as a convener and champion of regional integration. Participants encouraged the Fund to: improve implementation and project management; develop appropriate internal capacity; continuously seek co-financing opportunities including private funds; incorporate lessons learned; and provide further analysis of the country demand for ROs. They encouraged the Bank to incorporate essential management, governance and regulatory aspects into

“hard” regional integration projects and help build the capacity of regional economic communities. Participants reiterated the need for robust, transparent, performance-based prioritization criteria and welcomed management’s intent to revise the RO selection criteria and process. They reaffirmed their support of the cost-sharing principle among beneficiary countries and also encouraged the Bank to consider introducing new measures that could provide additional flexibility where relevant. They endorsed the proposed cap on regional public goods.

Policy-based Operations

8. Participants discussed the importance – and the challenges – of effective Policy Based Operations (PBOs) in ADF. They broadly endorsed Management’s approach to PBOs for ADF-12 and provided guidance on several aspects: the importance of measuring and demonstrating results; taking greater leadership; and the need for PBOs to be part of a package of support including analytical work, capacity building, forthright policy dialogue, sector/project support and partnership with other donors. They emphasized the importance of robust fiduciary arrangements and their effective implementation to reduce risks and ensure efficient and appropriate use of resources. Participants further highlighted the link between effective delivery of PBOs and appropriate levels of decentralization to ensure that the Fund has presence on the ground to engage effectively in policy dialogue.

Fragile States

9. Participants were encouraged by experience with the Fund’s Fragile States Facility (FSF), its achievements under ADF-11 and the proposals for ADF-12. They endorsed Management’s proposal to phase out enhanced support under the FSF but urged Management to ensure that the phase-out mechanism rewards performance and sufficiently accounts for the diversity of circumstances in fragile states as they transition to a more normal development trajectory. They emphasized the need to use PBOs in a highly selective manner in fragile states in conjunction with strong fiduciary controls and appropriate capacity building support. Decentralization and effective presence on the ground were highlighted as vital to successful engagement in fragile states. Participants requested greater clarity on Management’s proposals with respect to arrears clearance and expressed a preference to see arrears clearance treated within the FSF framework, but with careful design to avoid potential crowding out of other purposes.

Resource Allocation

10. There was broad comfort with how the current split had worked between PBA-driven funds and those set aside for regional integration and support for fragile states, though some participants thought there was scope for expansion of set-asides, in particular for regional operations. Many emphasized the importance of maintaining and reinforcing links to performance throughout ADF portfolio. Participants questioned the value of establishing a crisis response facility. In that context, possible modifications to the current PBA formula, including measures to reduce volatility and the introduction of a variable to measure vulnerability were reviewed, but most participants did not encourage the introduction of new variables such as vulnerability in the PBA formula.

Financing Framework for ADF-12 and Long-Term Financial Integrity of the Fund

11. Participants discussed Management’s proposals for the ADF-12 financing framework. They reiterated their confidence in the Fund as an important partner in Africa’s development, but underlined both fiscal pressures and competition for limited aid resources as factors weighing on the overall replenishment level. They asked Management to prepare additional scenarios for the overall replenishment level in the lower range, including scenarios interpolating between those presented and scenarios based on donor contribution levels as well as overall replenishment size. Participants strongly urged Management to explore further options to maximize internal resources available for ADF-12. Specifically, participants asked Management to consider: increasing net income transfers to the Fund from the Bank, including from arrears clearance reflows; adjusting cost-sharing arrangements between the Fund and the Bank; and establishing the Fund’s graduation policy, loan cancellation, loan pricing and conditions and liquidity policies. They endorsed Management’s proposals with respect to exchange rates (use of 6-month exchange rate ending 31 May 2010), the encashment schedule and the discount rate applied to accelerated encashment.

Other Matters

12. Participants agreed to maintain an ambitious schedule to complete the replenishment, with the next meeting to take place in May 2010.