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Progress Report on Implementation of ADF-12 Operational Priorities

Discussion Paper

ADF-12 Mid-Term Review
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Executive Summary

Under the Twelfth Replenishment of the African Development Fund (ADF-12), the Fund's mandate as a preferred channel of development financing to Africa's low-income countries was reaffirmed by ADF Deputies and Management of the Bank Group. They agreed that the Fund has a critical role to play in addressing the development challenges of the continent, especially in closing the infrastructure deficit, promoting good governance, accelerating regional integration and providing enhanced support to fragile and conflict-affected countries. This report provides an update on the implementation of these priorities and the agreed cross-cutting themes at midpoint of the ADF-12 operational cycle (2011-13).

Operational context: The first half of the ADF-12 period has been characterized by fast-moving changes in the economic and political contexts at the country, regional and global levels. While Africa's low-income countries have demonstrated remarkable resilience and a relatively quick recovery from the 2009 global financial and economic crisis, they continue to face the monumental challenges of translating economic growth into broad-based inclusive development. The political landscape across the region is also undergoing notable changes, with signs of democratic transformation in a large part of the region on the one hand, and a rise in political instability and armed violence in some areas, on the other. Poverty, insecurity and vulnerability to exogenous shocks remain unacceptably high, especially for fragile and conflict-affected countries.

The Fund's response: Drawing on the Bank Group's institutional resilience and enhanced capacity, the ADF has responded to the diverse and changing needs of its clients in a timely and appropriate fashion, using the range of instruments at its disposal. ADF operations are achieving their development objectives and delivering concrete results on the ground, with significant improvements observed in the performance and quality of its portfolio. Despite the physical and security constraints on the Bank Group's operational base in Tunis in early 2011 and the on-going political and economic challenges in many countries, the implementation of ADF-12 strategic objectives and operational priorities remains on track and in line with the commitments spelled out in the Deputies' Report.

Overall, as at mid-term of the ADF-12 cycle, the ADF Board of Directors had approved 91 operations valued at Units of Account (UA) 2,684.6 million, representing 49 percent of operations in the ADF-12 pipeline (UA 5,430.9 million). The approved resources comprise of ADF-12 resources (UA 2,621.9 million) and resources from canceled projects that were used by countries (UA 62.7 million). The sector distribution of approved and planned operations is consistent with the ADF-12 strategic priorities.

- **Infrastructure:** The infrastructure sector represents for the largest share of the ADF-12 portfolio with UA 3,171.3 million (59 percent) of the total pipeline of operations in ADF-12. Infrastructure sector approvals as at end-July 2012 stood at UA 1,341.7 million (42 percent of the total expected commitments for the cycle). Within the infrastructure sub-sectors, the transport sector accounts for 76 percent approvals, followed by energy (12 percent), water supply and sanitation (11 percent) and information communication and technologies (1 percent). Infrastructure investments under ADF-12 aim to bridge critical gaps in infrastructure networks and promote economic development and integration at both national and regional levels by scaling up investments building on ADF-11 achievements, and by increasing project size, as appropriate, to minimize investment fragmentation and transaction costs. In line with the objectives of promoting agricultural productivity and food security through infrastructure, over a third of the approved infrastructure operations support agriculture as primary or secondary objective, while over 50 percent of operations approved under the agriculture sector are linked to infrastructure.
- **Governance:** Twenty two (22) operations valued at UA 840.5 million had been approved at mid-term, of which UA 375.0 million (46 percent) had been disbursed. The operations support economic and financial governance reforms at country, sector and regional levels, with particular focus on public financial management and assistance towards private sector development. The Fund has also continued to provide complementary technical assistance, analytical and advisory services to governance reforms and institutional capacity building. Recent evaluations have pointed to positive impact on public financial management reforms through budget-support operations and the pioneering role that the Bank Group has had in fragile states. The new Bank Group Program-Based Operations Policy, which was informed by the 2011 evaluation of Bank Group's use of Policy-Based Operation instrument, and extensive internal and external consultations, was approved by the Boards of Directors in 2012.

- **Regional Operations (ROs):** With the increase in the size of the RO envelope from 17.5 percent to 20 percent under ADF-12 (UA 1,162.5 million), and following the introduction of the RO Selection and Prioritization Framework in 2011, 24 projects were selected in 2011-12, representing an expected use of UA 1,115 million (96 percent) from the RO envelope. Sixty-five (65) percent of the selected projects had been approved, and the remaining are expected to be approved in the second half of 2012. Findings of the independent evaluation conducted in 2012 affirm that the Fund's assistance towards regional integration, which has increased over time, has been relevant, effective and responsive to the needs of clients. The report has also identified areas where further improvements are needed, such as better defining what constitutes regional operations, developing a clearer focus on the soft constraints of regional integration, identifying the role of the private sector, and addressing institutional issues.
- **Fragile States:** Eleven operations valued at UA 229.5 million had been approved (57 percent of programmed resources) under Pillar I of the Fragile States Facility to support the rehabilitation and reconstruction of infrastructure, accelerate governance reforms and rebuild institutional capacity in six countries. Under Pillar III, UA 20.1 million had been committed to support institutional capacity development in 13 countries. Performance assessments of countries that benefitted from first cycle Pillar I and Pillar II assistance under ADF-11 show that all are making progress in implementing governance reforms, improving macroeconomic performance and benefitting from debt relief assistance. The ADF's support under Pillar III has been notably important in opening the space for the Bank Group to engage in countries with particular challenges, such as Somalia, Sudan and Zimbabwe, for which it has limited instruments. Findings from the independent evaluation on the Bank Group's assistance to fragile states show that the Fund's support has been effective, responsive and flexible, especially as regards the implementation of Pillar I and Pillar II operations. The report also identified areas for further improvement, which Management is currently addressing, including the need to re-evaluate the Fragile States Facility resource-allocation framework and eligibility criteria; strengthen program design and implementation through deeper 'fragility' analysis; improve the design and day-to-day management of Pillar III activities; and better define and streamline institutional arrangements.
- **Cross-cutting Themes:** The strategic and operational linkages of the ADF cross-cutting themes – private sector development, climate change, gender and human-capital development and agriculture and food security – have been strengthened under ADF-12. The Fund's support for the promotion of business-enabling environment is increasing, while the proportion of *private sector* operations in ADF countries has grown from 30 percent in 2007 to 48 percent in 2011. The increased use of innovative financing instruments, such as public-private partnerships, and the introduction of the ADF Partial Risk Guarantee instrument has positioned the Bank Group to deepen and broaden its support to private sector development across the region. Similarly, the Bank Group's operational support, policy advocacy and knowledge activities in *climate change* have grown significantly. Resources mobilized from climate financing facilities are used strategically to complement the Fund's resources, especially in the infrastructure and agriculture sectors. The Bank Group is also making steady, albeit slow, progress in its *gender mainstreaming* agenda; and in response to increased demand from its clients, ADF-12 support to *human capital development* has increased, accounting for 8 percent (UA 405.6 million) of commitments over the three-year cycle. Similarly, ADF-12 pipeline of operations in the *agriculture and food security* sector account for 11 percent (UA 587.9 million) of total commitments and is substantially higher when combined with agriculture-linked operations in the infrastructure portfolio. In addition to operational activities, a number of policies and strategies on cross-cutting issues – such as the Private Sector Development Policy and Strategy, Gender Strategy 2012-2016, Human Capital Development Strategy 2012-2016, and the Climate Change Action Plan 2011-2015 – are being designed and/or refined to reflect their growing importance and the comprehensive and coherent Bank-wide approach to mainstreaming these cross-cutting themes.

Implementation Challenges: The key challenges and emerging issues Management has identified for closer monitoring and action going forward include, the need to strengthen clients' capacity for project preparation and project implementation, especially in the infrastructure sector; and the imperative to enhance the Fund's financial and programmatic support to fragile states, regional operations, private sector development and the development of human capital.

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Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADF-11	Eleventh General Replenishment of the African Development Fund
ADF-12	Twelfth General Replenishment of the African Development Fund
CIF	Climate Investment Fund
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
CSS	Climate Safeguards System
DFI	Development Financing Institution
EITI	Extractive Industries Transparency Initiative
FSF	Fragile States Facility
GAP	Governance Action Plan
GDP	Gross Domestic Product
GEF	Global Environmental Fund
GR	Governance Rating
HDI	Human Development Index
ICT	Information Communication and Technology
IGAP	Infrastructure and Growth Action Plan
IMF	International Monetary Fund
IPP	Independent Power Producer
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
NAMA	Nationally Appropriate Mitigation Action
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
PAR	Project Appraisal Report
PBA	Performance-Based Allocation
PBO	Program-Based Operation formerly Policy-Based Operation
PFM	Public Financial Management
PPP	Public Private Partnership
PRG	Partial Risk Guarantee
PSD	Private Sector Development
REC	Regional Economic Community
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
RMF	Results Measurement Framework
RO	Regional Operation
RPG	Regional Public Good
SME	Small and Medium Enterprise
UA	Unit of Account
UN	United Nations
USD	United States Dollar

PROGRESS REPORT ON IMPLEMENTATION OF ADF-12 OPERATIONAL PRIORITIES

1. Introduction

- 1.1 The strategic positioning and resource capacity of the African Development Bank (ADB or Bank) Group was strengthened under the Twelfth Replenishment of the African Development Fund (ADF-12) and the concurrent capital increase of the Bank.¹ The African Development Fund's (ADF or Fund) mandate as a preferred channel of development financing to Africa's low-income countries was reaffirmed under a 'One Bank' framework that harnesses the Bank Group's continent-wide reach. As part of the replenishment compact, ADF Deputies and Management agreed on a set of strategically focused priorities that would constitute the Fund's program of assistance over the ADF-12 (2011-2013) period, as outlined in the ADF-12 Report. They also agreed that the delivery of this assistance would be underpinned by robust institutional capacity, greater attention to the quality and effectiveness of operations, and stronger focus on development results.
- 1.2 In line with this mandate, the ADF-12 operational engagement focuses on four strategic pillars: (i) addressing Africa's infrastructure needs; (ii) promoting accountable and transparent governance in the area of public financial and economic management, and creating an enabling environment for private sector development at country, sector and regional levels; (iii) supporting regional integration by scaling-up investments in regional infrastructure, regional public goods and capacity building as well as introducing new tools to strengthen the selection and prioritization of regional operations; and (iv) assisting fragile states in rebuilding their economic capacity and restoring stability through enhanced operational engagement. These operational priorities incorporate the cross-cutting themes of providing enhanced support for private sector development, advancing a low-carbon, climate-resilient growth path, deepening gender mainstreaming and investing in human capital development; and promoting food security and agricultural productivity.
- 1.3 This report provides an update on the implementation of core operational priorities and cross-cutting themes at the midpoint of the ADF-12 cycle. The ADF-12 discussion papers on resource allocation, institutional effectiveness, and results and development effectiveness provide complementary updates on related ADF activities and actions in support of the implementation of the operational priorities. The report is organized as follows: Section 2 provides an overview of the current operational context and highlights of the ADF's delivery of assistance; Section 3 discusses the implementation of ADF-12 operational priorities and cross-cutting themes; Section 4 presents emerging issues and implementation challenges, and measures taken by Management; and Section 5 offers conclusions and recommendations. Detailed updates on the implementation of the newly introduced ADF Regional Operations Selection and Prioritization Framework, the ADF Partial Risk Guarantee Instrument and the Bank Group Climate Change Action Plan (2011-2015) are provided in Annexes I – III.

2. Overview of Operational Context and ADF's Delivery of Assistance

Maintaining Strategic Focus in a Diverse and Changing Operational Context

- 2.1 Since the conclusion of the ADF-12 replenishment discussions in 2010, the context in which the ADF operates continues to evolve, with the sluggish recovery from the 2009 global financial and economic crisis giving way to the euro zone debt crisis and budget austerity in most of the advanced economies; the emergence of unprecedented political and social unrest in North Africa; a rise in civil protests across sub-Saharan Africa; and pockets of political instability and armed conflict in sub-regions. A large number of ADF donor countries are undergoing severe economic and budgetary constraints, even as they stand steadfast in their support to Africa. For its part, the Fund has remained strategically focused throughout these

¹ Consultations on the Sixth General Capital Increase of the African Development Bank were concluded in May 2010 with a 200 percent capital increase, followed by the ADF-12 replenishment (UA 6.1 billion) in September 2010.

challenges and responsive to the diverse needs of its clients.

- 2.2 On the economic front, **Africa's low-income countries have demonstrated remarkable resilience and recovery.** On average, real gross domestic product (GDP) growth for all ADF-eligible countries² has rebounded from 4.9 percent in 2009, to 5.7 percent in 2011 and is expected to reach 6.2 percent in 2012. While the fastest growth is observed in oil-exporting countries, a number of other countries, such as Ethiopia, Liberia, Mozambique and Rwanda, have registered annual growth rates above 7 percent on average, thanks to continued prudence in economic management and policy reforms over the past decade.³
- 2.3 Notwithstanding the positive economic performance, challenges still persist in translating growth into broad-based inclusive development that promotes social welfare and employment opportunities, especially among the fast-growing youth populations across the continent. Human development indicators on education and health have improved only marginally even during the years of strong growth performance, with the overall average composite United Nations (UN) Human Development Index (HDI) for Africa rising from 0.4 in 2000 to 0.42 in 2009.⁴ The continent's fragile states also continue to rank at the bottom quintile of the 2011 HDI and account for the majority of countries struggling to meet the Millennium Development Goals (MDGs). Fragile states tend to lag 40 percent to 60 percent behind other low- and middle-income countries in achieving the MDGs, and in fact not a single low-income country coping with fragility and conflict, has as yet achieved a single MDG.⁵ An additional challenge for poor oil- and food-importing countries is the continued rise in global oil and food prices, which have strained government budgets and limited their capacity to scale-up the delivery of basic services to their citizens, especially in fragile states. Furthermore, continued vulnerability to droughts and food insecurity in the Horn of Africa and the Sahel regions has had catastrophic effect on the lives and livelihoods of millions of people, with nearly 4 million people in Somalia having been affected by severe malnutrition and famine in 2010-11. Addressing Africa's environmental and poverty challenges thus remains a priority area of action for the Fund and its clients.
- 2.4 The **political landscape in Africa is also undergoing important changes**, with encouraging signs of democratic transformation, albeit nascent, observed across the region. This is evidenced by the opening up of the political space for freedom of expression and citizens' participation in parliamentary and presidential elections, averaging 15-20 elections per year since 2000.⁶ In addition to the wave of uprisings in North Africa that prompted the so-called Arab Spring, several countries in sub-Saharan Africa have experienced a sharp increase in non-violent civil protests and street demonstrations triggered by demands for democratic changes and economic justice.⁷ At the same time, political instability and pockets of armed violence continue to pose a security and development risk in a number of countries, and require concerted action by regional and international partners. For instance, the violence that followed the 2011 presidential elections in Cote d'Ivoire was particularly acute and required the intervention of the international community. Securing lasting peace and political stability in the Horn of Africa, especially in Somalia, Sudan and South Sudan, remains a challenge although encouraging signs are observed intermittently – such as the peaceful referendum and separation of South Sudan from Sudan in July 2011. Finally, the resurgence of military coups, which had been on the decline since 2000, signals a worrying trend of what could potentially be a return of undemocratic rule in the affected countries (e.g. Guinea-Bissau).
- 2.5 Drawing on the Bank Group's delivery capacity and institutional resilience, **the ADF has responded** to the diverse and changing needs of its clients in a timely and appropriate fashion using the range of instruments at its disposal, including delivery of tailored assistance to countries affected by crisis (Cote d'Ivoire, Guinea, Horn of Africa, Somalia, Sudan and Zimbabwe). Despite the physical and security constraints on the Bank Group's operational

² Forty-one (41) countries out of the 54 regional member countries of the Bank Group, including the new state of South Sudan.

³ African Development Bank. May 2012. *African Economic Outlook 2012*. www.africaneconomicoutlook.org/en/outlook

⁴ African Development Bank. *Telling Africa's Development Story*

⁵ The World Bank. 2011. *World Development Report 2011: Conflict, Security and Development*.

⁶ The Economist Intelligence Unit. *Democracy Index 2011: Democracy Under Stress*. www.eiu.com.

⁷ Analysis in the 2012 African Economic Outlook shows that civil protest and civil violence indices show a sharp increase in 2011 for nearly all ADF countries, with 31 countries across the continent recording the highest civil protest score since 1996.

base in Tunis in early 2011 and the on-going political challenges in several countries, the delivery of ADF assistance has continued without major interruptions. As of end-July 2012, approvals under ADF-12 had reached UA 2,684.6 million, of which budget support operations had already disbursed 46 percent (UA 375.0 million) of the approved resources (UA 812.4 million). Findings from the 2012 client survey report, *The Preferred Partner? A Client Assessment of the African Development Bank*, affirm that compared to other multilateral organizations, and compared to its performance over the period 2007-2011, the Bank Group's ability to provide rapid, flexible and predictable support in response to external shocks and changing country needs has improved significantly, and was rated (3 out of a maximum 3.5) – higher than the average score of other multilateral agencies (2.4). The report notes that respondents were particularly appreciative of the Bank's flexibility in responding rapidly and appropriately (much more so than other most other donors) to exogenous shocks, especially during the global financial and food/petroleum price crises; as well as in response to extreme national crises for fragile and post-conflict states.

Focus on Development Results

- 2.6 The Fund's assistance has not only been timely and strategically aligned with client countries needs and priorities, but it is also delivering concrete results as captured by the Bank Group Results Measurement Framework (RMF)⁸. In terms of **development outcomes at the country level** (Level 1), ADF countries have made notable progress across all the nine performance categories captured by the RMF⁹, with 20 out of 24 (83 percent) indicators¹⁰ showing improvement. The areas where progress is lagging include reducing inequality; increasing agricultural productivity and food security; and promoting women's equality in the formal workforce. Anchoring economic growth in good governance and policy frameworks that are responsive to the needs of the poor and marginalized people remains a fundamental requisite for a genuine transformation. This is further supported by trend analysis of the Bank Group's annual Country Policy and Institutional Assessment (CPIA) and Governance Ratings (GR) over the period 2004-2011. The data shows that the majority of ADF countries have made notable progress, with overall average CPIA rising by 10 percent (from 3.14 to 3.47), and overall GR rising by 8 percent (from 2.99 to 3.24) – with major improvements observed in terms of efficiency of revenue mobilization and monetary and debt policy. Yet, CPIA scores have deteriorated in 5 countries (12.5 percent of total), while 14 countries (35 percent) have seen their GR performance either remain stagnant or deteriorate.¹¹ On the other hand, encouraging trends are observed in the CPIA and GR performances in fragile states, indicating that reform commitments by the countries and sustained support by the Fund and other development partners are producing results.
- 2.7 The **ADF's contribution to development outcomes at the operational level** (Level 2) in all countries benefiting from its assistance, nearly half of which are fragile or conflict-affected states, has also shown solid performance. As reflected in the ADF-12 RMF Core Sector Indicators, about 90 percent of expected outputs from ADF projects that closed between 2009 and 2011 have been delivered.¹² The Fund's support in the infrastructure sector, which is increasingly shifting towards a low-carbon, climate-resilient path, has opened much-needed access to transport, energy and water and sanitation services to over 27 million people. Similarly, ADF operations in agriculture and food security have assisted over 8 million people, most of them rural households, and helped enhance beneficiaries' productivity and household incomes through improved management of land, water and livestock, and better access to markets and essential services. Support in the social sectors of education, health and microfinance, most of which specifically target women and children, is contributing to the improvement in the lives of 26 million people. In response to the widespread demand in most African countries for inclusive growth that is responsive to the changing social and economic

⁸ This is reported in detail in the Bank Group's annual *African Development Effectiveness Review* of 2011 and 2012.

⁹ Level 1 performance categories cover economic growth and poverty reduction; private sector development; regional integration; infrastructure; agriculture and food security; gender and human development; governance and transparency; fragile states and conflict-affected countries; and climate change and clean energy.

¹⁰ For which there are baseline and target values.

¹¹ Key drivers of weak CPIA performance include poor business regulatory environment, social protection and labor; while GRs are the lowest in the area of property rights and public sector management (quality, transparency and accountability).

¹² 40 out of 45 indicators for which there are baseline and target values have achieved a delivery rate of 90 percent or higher.

conditions, attention has been directed towards increasing the Fund's support in human capital development, an essential ingredient in promoting sustainable economic and social development.

- 2.8 The **performance of the ADF portfolio** is another area where considerable progress has been made, especially when observing trends over the period 2007-2011. As shown in Table 1 below, the ADF's active portfolio has grown in recent years, rising from UA 7.3 billion in 2007 to UA 8.8 billion in 2011 (18 percent increase). The growth in portfolio volume has been accompanied by a 44 percent increase in the average size of operations (from UA 14 million in 2007 to UA 25 million in 2011) and a 34 percent decline in the number of projects (from 528 in 2007 to 349 in 2011). This is contributing to reduced aid fragmentation, lower transaction costs, better portfolio management and prudent use of ADF resources, especially in fragile states. Further evidence of improvements in ADF portfolio performance is observed in the decline in the proportion of ageing projects by 30 percent over the 2007-2011 period, and a 40 percent reduction in the share of problem projects over the same period. While the rate at which ADF investment operations disburse (disbursements ratio) has not reached the desired annual target of 20 percent, the trend since 2008 shows modest improvements.¹³ The picture is much more encouraging when disaggregating disbursement ratios in fragile states, which show a steady increase over the past three years, from 15 percent in 2009 to 20 percent in 2011.

Table 1: Trends in ADF Portfolio Performance*, 2007-2011

	2007	2008	2009	2010	2011
Active Portfolio					
All operations (UA m)	7,298	7,971	8,791	9,627	8,848
Number of operations	528	518	466	450	349
Average size (UA m)	14	15	19	21	25
Approvals					
Value (UA m)	1,382	1,665	1,836	1,426	1,476
Average size (UA m)	26	27	30	29	32
Portfolio Performance					
Ageing projects (share of total, %)	14	9	12	12	10
Fragile States				9	3
Problem projects (%)	8	5	6	6	5
Fragile States			14	6	7
Disbursement (UA m)	725	1,125	1,726	1,166	1,297
Disbursement % (against target)	88	123	160	78	87
Disbursement ratio (%)	19	15	18	17	18
Fragile States			15	19	20
Projects eligible for cancelation - ADF countries (UA m)	486	510	372	356	343
%	7	6	4	4	4
Fragile States (%)			12	6	4
Canceled Resources** - ADF total (UA m)	44	33	16	107	147

Source: * Based on data from Bank Group Annual Portfolio Performance Report (2008-2012); ** Based on data from Bank Group Loan Accounting Department (FFCO.4).

¹³ See also the discussion papers on *Institutional Effectiveness* and *Results and Development Effectiveness* for additional discussion on issue related to disbursement ratio and disbursement delays.

- 2.9 The share of projects eligible for cancelations has dropped significantly (by nearly 50 percent) in 2011 compared to the 2007 level of 7 percent, although it has remained at the same level (4 percent) since 2009. To improve portfolio management and enhance the reallocation and use of resources from projects eligible for cancellation, Management introduced a rigorous approach for monitoring the implementation of the revised *Bank Group Project Cancellation Guidelines*. This action has led to a three-fold increase in the amount of canceled resources, which reached UA 147 million in 2011 compared to UA 44 million in 2007 – and is likely to increase even more in 2012.¹⁴ Out of the canceled resources, a total of UA 62.7 million was used by Burkina Faso, Cote d'Ivoire and Togo to finance operations, supplementing their ADF-12 allocations.
- 2.10 Along with improvements in portfolio management, positive trends are observed in the **quality-at-entry of ADF projects and country strategy papers (CSPs)** as reflected in the *2011 Readiness Review Retrospective Report*¹⁵. The report shows significant improvements in the preparation of project appraisals, with the Bank-wide ratio of project concept notes rated “ready for appraisal” increasing from 79 percent in 2010 to 96 percent in 2011. This has been largely attributed to improvements in addressing environmental and social safeguards issues. The average project appraisal report (PAR) ratings also improved from 3.8 in 2010 to 4.4¹⁶ in 2011. The two highest-scoring dimensions in the 2011 PAR reviews were “alignment and strategic fit” and “design rationale and ownership”, representing a significant improvement from 2010, while the “financial management and procurement” dimension continues to score the lowest, just meeting the threshold for “moderately satisfactory” (a score of 3.5)¹⁷. The report noted that those projects that had a satisfactory PAR rating reached their first disbursement, on average, within 14 months, while projects that were rated moderately unsatisfactory took, on average, 19 months to reach first disbursement. Improvements in the quality of CSPs are also observed, with 94 percent of CSPs rated satisfactory, with the highest scoring CSP dimension in 2011 being “contextual diagnostic and strategy design and rationale”, while the dimension “monitoring results and risk assessment” was rated lowest (scoring 3.8, moderately satisfactory). These findings point to the fact that the Readiness Review tool is meeting its objective of enhancing the quality of Bank Group operations; and that it plays a critical role in the internal review and oversight process by flagging issues that should be addressed at the earliest stage of project preparation and identifying strategic elements that require focused deliberations by the Operations Committee.
- 2.11 **Independent evaluations and internal reviews** are instrumental in shaping the policy and strategic direction of the Bank Group, improving the delivery of the ADF assistance to its clients, strengthening its operational effectiveness, and enhancing the accountability of both the Fund and its clients. Several independent evaluations were undertaken in 2011-12, including the evaluation on the Bank Group's use of policy-based operations, now renamed Program-Based Operations; the Bank Group's assistance to fragile states; and multinational operations. Overall, findings from these evaluations show that the Bank Group has made important contributions to, and progress in, each area studied, while at the same time a number of challenges and emerging issues remain to be addressed.¹⁸ Findings from internal reviews of the Bank Group Gender Action Plan 2009-2011 and the Governance Action Plan (GAP) 2008-2012 are also being used to inform the design of the new Bank Group Gender Strategy 2012-2016 (currently under preparation) and the successor GAP. Highlights of key findings and lessons of the evaluations and reviews are provided under the relevant sub-headings in Sections 3 and 4.

¹⁴ As at end-April 2012, the level of cancelled ADF resources stood at UA 85 million, while the level of resources eligible for cancellation stood at UA172.4 million.

¹⁵ African Development Bank. April 2012. *2011 Readiness Review Retrospective Report*. ADB/BD/IF/2012/82 – ADF/BD/IF/2012/76.

¹⁶ The ratings are based on a scale of 1 (highly unsatisfactory) - 6 (highly satisfactory).

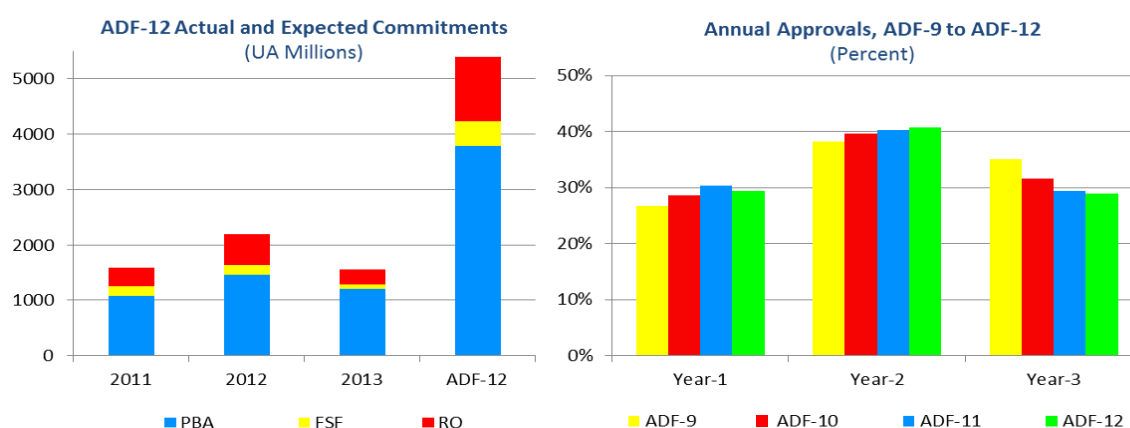
¹⁷ See also the ADF-12 discussion paper on *Institutional Effectiveness* for updates on the Bank Group's efforts in strengthening Procurement and Financial Management frameworks and implementation.

¹⁸ Other reports to be presented in 2012-13 include evaluations on Integrated Water Resource Management; Economic and Sector Works; Mainstreaming Environment in Transport; Procurement; Quality at Entry of Projects; Transport sector; Strengthening Governance with Institutional Support Projects; and Chad Country Assistance Evaluation.

3. Implementation of ADF-12 Operational Priorities

- 3.1 The implementation of ADF-12 strategic objectives and operational priorities is on track and in line with the commitments agreed with ADF Deputies. This was facilitated by the early conclusion of the ADF-12 replenishment negotiations in September 2010, enabling Management to release information on the annual allocation of resources to ADF countries earlier in the year¹⁹. This was complemented by operational guidelines that provide detailed guidance on the allocation and use of ADF-12 resources over the three-year (2011-13) cycle.
- 3.2 Volume and distribution of ADF-12 operations: As at mid-term of the ADF-12 cycle, the ADF Board of Directors had approved 91 operations valued at UA 2,684.6 million (of which UA 2,621.9 from ADF-12 resources and UA 62.7 million from canceled projects). The approved operations represent 49 percent of projects currently in the ADF-12 pipeline (of UA 5,430.9 million) (Figure 1).^{20, 21} A complete list of approved operations as of the end of July 2012 is provided in Annex VI. The level of ADF-12 commitments at mid-term and the rate of expected approvals for the remainder the cycle is comparable to ADF-10 and ADF-11, which also show a higher concentration of approvals in the second year of the cycle (Figure 1).

Figure 1: ADF-12 Commitments and Trends in Annual Approvals (ADF-9 to ADF-12)



- 3.3 The **sector distribution** of approved and planned operations (Figure 2) is consistent with the ADF-12 strategic priorities. The infrastructure sector accounts for the largest share (59 percent, UA 3,171.3 million, of which 19 percent support agriculture and rural infrastructure) of actual and expected commitments in ADF-12, followed by governance (21 percent, UA 1,133.6 million), agriculture and food security (11 percent, UA 587.9 million) and human capital development (8 percent, UA 405.6 million). As would be expected, there is a significant variation in sector focus when analyzed by resource envelope: 80 percent and 10 percent of operations financed by the regional operations (RO) envelope are in infrastructure and agriculture, respectively, while the highest share of resources from the supplementary window (Pillar I) of the Fragile States Facility (FSF) is used for governance support (65 percent) and infrastructure construction and rehabilitation (34 percent). While operations targeting cross-cutting themes such as private sector development and climate change are for the most part embedded in core sectors (e.g. governance and infrastructure), ADF interventions in human capital development and in agriculture are designed as both stand-alone operations and also as components of other sector operations.
- 3.4 In terms of the **mix of instruments**, investment lending accounts for about 76 percent of all ADF-12 operations (actual and planned), followed by policy-based operations (20 percent), institutional capacity building operations (3 percent) and support to knowledge activities (1

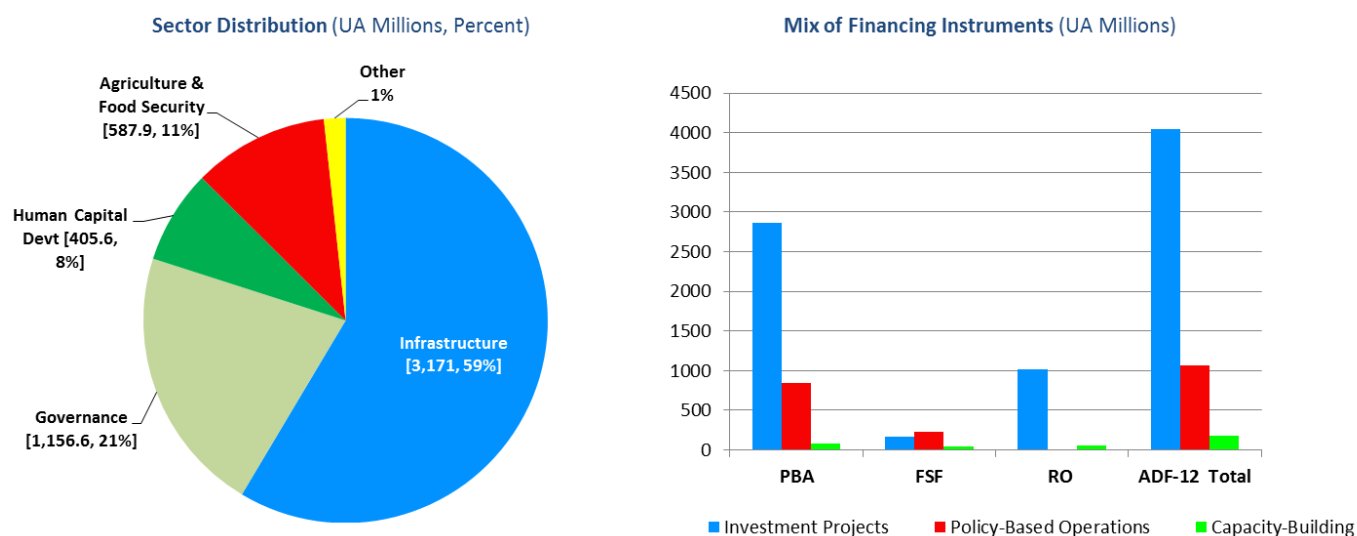
¹⁹ Especially in 2012 when Country ADF Allocations were released in December 2011 - the earliest release ever.

²⁰ The value is based on the pipeline of projects expected to be processed in ADF-12 and does not include resources set aside for arrears clearance (UA 362 million) and contingencies (UA 454 million).

²¹ ADF commitment figures reported in this paper were updated as of 18 July 2012, the last Board meeting before the summer recess. The figures also include surcharges that are applied on amounts approved in form of ADF grant.

percent). Here again the use of financing mix varies significantly between the different resource envelopes, where investment lending dominates in performance-based allocation (PBA) and RO-financed operations (78 percent and 91 percent, respectively, and Policy-Based Operations (PBOs) and institutional capacity building instruments are used more in FSF-supported operations (54 percent).

Figure 2: Sector Distribution and Mix of Financing Instruments under ADF-12



Notes: FSF financing does not include Pillar resources set aside for arrears clearance (UA 362.2 million).

I. Implementation of Core Operational Priorities

Infrastructure

- 3.5 The ADF-12 investments in the infrastructure sector aim to bridge critical gaps in infrastructure networks and promote economic development and integration at both national and regional levels. Important considerations in the Fund's choice and design of projects include scaling-up investments, building on ADF-11 achievements and lessons; increasing project size, as appropriate, to minimize investment fragmentation and transaction costs; and prioritizing projects that promote regional integration. Combined, the Fund's national and regional infrastructure investments help to improve agricultural productivity and food security, facilitate national and intra-regional trade and open up potential economies of scale to African businesses that are necessary to advance inclusive and sustainable economic growth and social development across the continent.
- 3.6 Based on lessons from implementation experience and independent reviews, the design and implementation of ADF-12 infrastructure operations take into account the need for: (i) ensuring project readiness and preparedness of the client by funding studies up to the preparation of tender documents – which is critical for addressing institutional and service delivery capacity limitations as well as for reducing processing time for approvals and implementation; (ii) greater use of national systems and use of sector-wide programmatic approaches, where appropriate; (iii) integrating climate change adaptation and mitigation measures in project design and prioritizing, to the extent possible, interventions that use renewable or green energy; (iv) assisting clients in implementing environmental and social safeguard requirements, and providing capacity support as needed; and (v) providing faster and better services to clients through the Bank Group's decentralization program by transferring task-management responsibilities to Field Office staff.
- 3.7 As at mid-term of the ADF-12 cycle, a total of 22 operations valued at UA 1,341.7 million, out of the total UA 3,171.3 million projects in the pipeline for the three-year cycle, had been approved to support the Fund's activities in the infrastructure sub-sectors of transport, information communication and technologies (ICT), energy, and water supply and sanitation (Table 2).

Table 2: ADF-12 Infrastructure Operations, Approved and Expected as of End-July 2012

Infrastructure Sub-Sectors	Total Value, ADF-12 Pipeline (UA million)	Approved (UA million)	Approved (%)
Transport <i>Of which supporting agriculture as primary or secondary objective</i>	1,709.00	1,023.90 563.56	60
ICT	33.47	14.00	42
Energy	1,064.50	163.35	15
Water Supply & Sanitation	364.60	140.01	38
Total - Infrastructure Sector Operations	3,171.30	1,341.70	41
<i>Infrastructure-linked Agriculture projects²²</i>	<i>182.08</i>	<i>143.81</i>	<i>0.79</i>

- 3.8 **Transport:** Total investment in the transport sector is expected to reach UA 1,709.0 million over the ADF-12 period (Table 2), financing the construction of 2,800 kilometers (km) of roads, providing transport access to over 30 million people, and connecting rural communities to essential economic and social services such as health, education and markets – all of which are essential for poverty reduction and sustainable development. Fifteen (15) operations, five of which multinational, valued at UA 1,023.9 million had been approved as at end-July 2012. The approved operations will finance national and regional road networks of 1,313km of main roads and 840km of feeder roads. In line with the objectives of promoting agricultural productivity and food security through infrastructure, over a third of the approved transport projects support agriculture as primary or secondary objective, while over 50 percent (UA 143.8 million) of operations approved under the agriculture sector are linked to infrastructure. Road projects in Burundi, Ghana, Rwanda, Ethiopia, Mozambique and Zambia are located in areas where over 85 percent of the population is engaged in agriculture. In addition to supporting rural populations, with the approval in 2011 of the “Bank Group Urban Development Strategy 2011-2015”, preparatory work is being undertaken for several urban transportation projects in a number of African cities.

Box 1: Key Features of ADF-12 Support in the Transport Sector

Beyond the primary goal of reducing Africa's infrastructure deficit and spurring economic growth, transportation projects under ADF-12 are designed to achieve multiple objectives within the Fund's overall strategic orientation of promoting regional integration, supporting fragile states, addressing climate change challenges, improving food security and facilitating private sector development. This is particularly important given that transportation operations account for the largest share of ADF-12 investments.

Key features of ADF-12 transport projects include ensuring greater focus on employment creation and poverty reduction (Burundi's *Gitega – Ngozi Road Project* and Liberia's *Supplementary Labor Based Public Works Project*); scaling-up investments building on prior ADF operations (the *Mombasa – Nairobi Regional Corridor Phase III Project*); ensuring sustainability by maintaining or upgrading existing roads (*Bedele - Metu Road Project* in Ethiopia and *Rehabilitation of the Lomé – Cotonou Road and Transport Facilitation Project*); and opening up new transport networks and cross border linkages by supporting one-stop border posts (three operations) and major bridges (*Kazungula Bridge* linking Botswana and Zambia in Southern Africa, and the *Trans-Gambia Bridge* linking Gambia and Senegal in West Africa). Upon completion, the approved regional projects are expected to increase interregional trade traffic and trade tonnage, while reducing considerably transport costs and transit time (ranging from 2.5 to 24 hours) across borders.

- 3.9 To ensure the **maintenance** of sustainable financing mechanisms and efficient management of transport investments, the Fund has actively supported the establishment of Second Generation Road Funds in Burundi, Cameroon, the Democratic Republic of Congo and Togo. The management of these funds, which are used for improving road management, is fully autonomous and in line with the recommendations of the sub-Saharan Africa Transport Program. Joint initiatives by project staff and the executing agencies have been launched to involve local communities and community-based organizations in monitoring conditions along road corridors, including preserving road signs and community sensitization on road safety.

²² See section on *Agriculture and Food Security*.

The effort is also intended to strengthen community ownership and more proactive participation in dealing with environmental and social-safeguard issues. The Fund's operational and policy support has also been complemented by technical assistance for (i) organizational development and road-asset management (*Kazungula Bridge Authority, Ethiopian Road Authority*); (ii) improved project management and trade facilitation studies (the *Gambia-Senegal Bridge*); and (iii) capacity building for road studies and a road-safety pilot project (*Tanzanian Road Authority*).

- 3.10 **Information Communication Technologies:** In 2011 the Fund approved one ICT-based education operation, the *Bamako Digital Complex Support Project* (UA 14 million), and is currently developing regional ICT infrastructure projects including the *East Africa Community Backbone Project*. The Bamako project will provide support for ICT incubation capacity and training of 30 ICT engineers and 120 ICT technicians per year. The project targets women for ICT training (at least 25 percent of the teachers at the centre will be women), facilitates the establishment of Public Private Partnerships (PPPs) for ICT development, and supports 25 ICT-based small and medium enterprises (SMEs).
- 3.11 Given the dominance of private sector financing in ICT, the level of requests received by the Bank Group through the sovereign window has been fairly limited. The Fund is engaging more proactively, through non-lending activities, in the early preparatory stages of large and regional ICT projects, where sizable public financing is anticipated. One example of such support is the Common Market for Eastern and Southern Africa's *Air Space and the NAVISAT Project* for which the Fund is financing studies to inform the design of future public-private partnership investments. The project aims to improve navigation and air-traffic management services to enhance the safety and efficiency of air transport on the African continent. In addition, the Bank will assist clients in leveraging their ADF allocations to meet needs that are not currently being filled by the private sector, such as support for capacity building and regulatory frameworks.
- 3.12 **Energy:** The energy sector approvals under ADF-12 as at mid-term amounted to UA 163.4 million, and additional operations valued at UA 901.2 million are expected to be approved over the remainder of the ADF-12 implementation period. While the pace of approvals in 2011 has been slower than envisaged, given the complex nature of some projects, it is expected to pick up in the second half of the ADF-12 period as the preparations and financing arrangements of several projects are at a fairly advanced stage. The envisaged energy sector operations tie in well with the ADF-12 strategic focus of investing in clean energy and enhancing support to regional integration through shared power pools. The approved energy investments are expected to generate 550 megawatt (MW) of clean energy, finance the construction or rehabilitation of 3,500km of transmission lines and provide access to energy for over 1 million households and small businesses in rural and urban areas.²³
- 3.13 Examples of energy projects approved under ADF-12 include the *Menengai Geothermal Development Project* (Kenya), which is expected to produce enough steam for 400MW power that will be generated by the private sector as an Independent Power Producer or in a PPP framework. Upon completion, the project will meet the energy needs of 500,000 households and 300,000 small businesses and industries. The project is important in the development of Kenya's significant geothermal potential, with the imminent participation of the private sector. The Bank Group has led the development of the project and facilitated the mobilization of additional financing from other Development Financing Institutions (DFIs) and a grant from the *Scaling-up Renewable Energy Programme*, which has helped to mitigate the resource risk that the private sector is hesitant to assume. Other projects that provide access to clean energy include the *Lom Pangar Hydroelectric Project* in Cameroon, covering 150 communities, and the *Guinea Rural Electrification Project*, reaching 60,000 households in 31 communities. In addition to these operations, the *Itezhi-Tezhi Power Plant and Transmission Line Project* (Zambia) and other energy projects under ADF-12 have various distinctive elements as summarized in Box 2 below.

²³ Overall, energy projects in the ADF-12 pipeline are expected to result in the development of around 700MW of capacity and around 35,000 km of transmission and distribution lines that will benefit over 2 million households.

Box 2: Scaling-up Innovative Energy Investments in ADF Countries

Zambia's Itzhi-Tezhi Power Plant and Transmission Line Project, approved in June 2012 (UA 30 million), aims to develop a 120MW hydropower plant and the associated 276 kilometres of transmission lines. Under a PPP arrangement, the power plant is supported by the ADF loan to finance the government's shareholding in the project company that will develop the generation capacity under a 25-year concession. This was complemented by a non-sovereign loan from the ADB. The financing of the transmission lines is supported by the ADF and the Nigeria Trust Fund. The successful mobilization of equity and public financing of project-related transmission lines provides significant comfort to private financiers, and offers a good example of how the Bank Group's public and private sector windows jointly facilitate infrastructure development.

The Ethiopia-Kenya Interconnection Project is a large-scale project that is being led by the Fund with the participation of other co-financiers, including the World Bank and Agence Française de Développement. The ADF financing will cover 34 percent of the total project cost. The project reinforces the link to the *Nile Equatorial Lakes Subsidiary Action Program Interconnection Project*, which was also financed by ADF and it is expected that the network would include Kenya, Uganda, Rwanda, Burundi and reach the eastern part of the DRC, helping to bridge the supply gap and replace diesel generator-based energy. Looking further ahead, with the addition of the Kenya-Tanzania-Zambia link currently under preparation, the Ethiopia-Kenya project lays the foundation for a link between the Eastern and Southern African Power Pools.

Similarly, **the Cote d'Ivoire, Liberia, Sierra Leone and Guinea Interconnection Project**, 37 percent of which will be covered by ADF financing, will enable Liberia, Sierra Leone and Guinea to be connected through Cote d'Ivoire to the other countries in the West African Power Pool and lay the foundation for an integrated energy market in West Africa which will reduce inefficiencies and prices for consumers. The project will finance the construction of 1,411km of transmission lines, as well as fibre optic links that will greatly improve the telecommunications network between the four countries.

- 3.14 **Energy Policy:** In line with the ADF-12 commitment, a new Energy Policy has been prepared to replace the Bank Group's 1994 policy. The new Policy as conceived and currently drafted is designed with the objectives of: (i) supporting regional member countries (RMCs) in their efforts to provide all their populations and productive sectors with access to modern, affordable and reliable energy services; and (ii) assisting RMCs in developing their energy sector in a socially, economically and environmentally sustainable manner. The Policy sets out a number of principles to guide the Bank Group's operations in the sector, including ensuring energy security and increasing access for all; moving steadily towards a cleaner climate-resilient energy path; promoting a pro-poor focus and enhanced governance; and supporting innovative and increased financial flows in Africa's energy sector.
- 3.15 Extensive internal and external consultations were undertaken in developing and improving the Energy Policy, including: (i) a consultation meeting with governments, the private sector, academia, development partners and the civil society for the East Africa region was held in Khartoum, Sudan (July 2011) and a second one for North, West and Central Africa regions in Dakar, Senegal (August 2011); (ii) online consultation through the Bank Group's website from July to September 2011; and (iii) several discussions of the document by the Board's Committee on Operations and Development Effectiveness. The long consultation process, which partly reflects the complexity of addressing energy-related issues on the continent, has delayed the approval of the Policy by the Boards of Directors.²⁴
- 3.16 In parallel with the Policy, Management has prepared a draft medium-term Energy Strategy (2012-2016), which includes an operational action plan to implement the Policy. The Strategy focuses on two pillars: increasing access to modern energy services; and fostering clean energy investments.
- 3.17 **Water Supply and Sanitation:** The Fund's investments in the water and sanitation sector support the building of hard infrastructure as well as soft components, such as capacity building. As at the end of July 2012, five ADF projects valued at UA 140.0 million had been approved and additional projects (UA 224.6 million) are planned for the remainder of the ADF cycle. The approved projects will provide access to clean water supply to nearly 2.6 million people, and access to improved sanitation services to additional 1.4 million people in Chad, The Gambia, Niger, Nigeria and Uganda. The project in Nigeria will provide access to water

²⁴ The Policy is scheduled for consideration by the ADF/ADB Boards of Directors in Q3 2012.

and sanitation services to all public schools in the project area. The interventions in the five countries would support the construction of 1,470 school latrines; provide training to 12,750 members of water committee members, teachers, women committees, and water operators; and promote gender participation by targeting over 98,000 school girls and nearly half a million women to benefit from the program.

- 3.18 By providing sustainable access to water supply and sanitation services, and promoting better management of water resources in addition to the use of renewable energy systems (such as solar and wind), the ADF is actively supporting climate change adaptation and mitigation efforts in Africa. The Fund provides financing, advisory services and oversight for integrated water-management programs, flood-management projects, rural and urban water-supply projects and capacity development of regional stakeholders, including river-basin organizations. For example, the Fund is supporting flood control through the improvement of storm-drainage systems in Cameroon, Kenya, Cote d'Ivoire and Burkina Faso. Projects in Kenya and Tanzania focus on building resilience to climate change through better water storage and management, while 31 rural water-supply programs and projects financed by the Bank Group seek to increase access to clean water. In the area of climate change mitigation, the Fund is financing a wastewater treatment plant with methane-capturing facilities in Uganda; a rural water-supply project with solar-powered pumps in Gambia; and initiatives to reduce unaccounted-for-water in a number of urban water-supply systems that will lead to improvement in water delivery and energy efficiency. Institutional support to water-service providers in urban areas is an integral part of ADF-financed project activities that also focus on strengthening the regulatory and policy framework and encouraging private sector participation, all of which are critical for ensuring increased efficiency and sustainability in service delivery.
- 3.19 One of the key challenges in the water and sanitation sector is the low prioritization of investments in sanitation services by RMCs, despite the high economic benefits to health and education. The Bank Group has intensified its campaign for improved sanitation partnering with the African Ministers' Council on Water, the Water and Sanitation Program and other agencies through the "Sanitation and Water For All" initiative that targets high-level sensitization to increase resource allocation for sanitation programs.

Infrastructure Support through Partnerships, Innovation and Knowledge Work

- 3.20 To complement the ADF's support, efforts have also focused on leveraging additional resources and capacities for infrastructure development through **partnerships and co-financing**.
- In the transport sector, the AfDB/World Bank Annual Transport Sector Consultations provide a structured process for strengthening policy and operational co-ordination between the two institutions, particularly in project co-financing, joint sector work and supervision missions. Other co-operation and partnership efforts in which co-financing of infrastructure projects dominate include the Accelerated Co-financing Facility for Africa agreement with Japan International Co-operation Agency (USD 1 billion over 2005-10 and additional USD 1 billion pledged for the next five years); co-financing agreements with Korea (USD 400 million for 2009-2013) and the Islamic Development Bank (USD 500 million, matched by the same amount from the Bank Group); and a general agreement with Chinese Development or Exim Banks. Discussions are also underway on a co-financing arrangement with the Brazilian Development Bank.
 - The ADF's participation in innovative and complex financing frameworks, such as PPPs, has also increased under ADF-12 – notably in the energy sector. It is frequently observed in PPP projects that the equity and public funds mobilization efforts precede the senior private debt tranche, and that it offers significant comfort to the due diligence process of private lenders. The Fund's experience thus far indicates that increased levels of financial resources and technical support are required to ensure adequate technical preparation of projects, and to secure agreement from a broad range of stakeholders on proposed financing structures, which often require blending different types of resources and financing instruments. The Fund thus supports public entities, such as utility companies, in collaboration with various stakeholders, to develop a pipeline of innovative projects.

- With the increased mainstreaming of climate change in ADF infrastructure projects, mobilizing additional resources from sources dedicated to climate financing has become paramount. The Bank Group is making considerable efforts to leverage climate finance resources, such as the Climate Investment Funds, and develop Bank-specific climate finance facilities. To date, it has mobilized over USD 800 million to support the development of mitigation projects in the infrastructure (Clean Technology Fund, Scaling-up Renewable Energy Program and Sustainable Energy Fund for Africa) and forestry (Forest Investment Program) sectors, and is managing USD 103 million under the Pilot Program for Climate Resilience in the agriculture sector (*see also sections on Climate Change, Agriculture and Food Security and Annex III*).
 - In the water and sanitation sector, while ADF and Trust Fund resources have enabled the Bank Group to be responsive to RMCs' needs in dealing with the effects of climate change and chronic vulnerability to droughts, the need for additional resources is still high. The Bank Group was able to raise over USD 111 million in 2012 for the Rural Water and Sanitation Initiative Trust Fund and the Africa Water Facility.²⁵ The growing demand for financing for water and sanitation priorities on the continent points to a need for a shift towards innovative financing mechanisms that involve private sector participation, as well as the need for alternative approaches, such as Results-Based Aid/Financing, in promoting pro-poor spending in the water and sanitation sector.
- 3.21 The Bank Group's **analytical and knowledge products**, such as the Infrastructure and Growth Action Plan (IGAP) flagship report, are increasingly being used as platforms for advisory services and resource-mobilization efforts by the Fund, its clients and other development partners. The IGAPs provide in-depth analysis on: (i) factors critical for enhancing competitiveness and private sector development in the infrastructure sector; (ii) the requisite policy and regulatory reforms; and (iii) the approach for sequencing and prioritizing investments and associated costs. Since 2009, IGAPs have been developed for Burundi, Sierra Leone, South Sudan and Zimbabwe.²⁶
- 3.22 In addition to flagship products, the Bank Group's Regional Integration Strategy Papers, its role as a host of the Infrastructure Consortium for Africa, and increased engagement in PPPs and climate financing provide a unique opportunity for the Fund's engagement in **policy dialogue and advisory support** at national and regional levels. In the energy sector, for instance, Bank staff are actively involved in advising the Democratic Republic of Congo (DRC) on the next phase of development on the Inga project site, with the ADF financing the feasibility study, and leading the participating DFIs, including legal support on the PPP contractual agreements. Other advisory services include: supporting RMCs in developing investment plans for the Climate Investment Funds (Ethiopia, Kenya, Liberia Mali and, Tanzania); providing legal and capacity support in collaboration with the Africa Legal Support Facility (Djibouti); advising on transactions related to hydropower projects (East Africa); and undertaking robust Economic and Sector Work to deepen policy dialogue and operational planning.

Governance

- 3.23 The ADF-12 operational and strategic objectives in the governance sector aim to further consolidate work on economic and financial governance, particularly public financial management, domestic resource mobilization and assistance towards private sector development by supporting reforms to improve business-enabling environment. The 2008 Bank Group's GAP 2008-2012 continues to serve as the main framework for the Fund's lending and non-lending support during the ADF-12 period.
- 3.24 Implementation of governance sector operations at mid-term is on track. As at mid-term of the ADF-12 cycle, a total of twenty-two (22) operations valued at UA 840.5 million had been approved, including multi-sector operations targeting social sector programs, of which UA 375.0 million (46 percent) had been disbursed (Table 3). The operational focus of the governance portfolio of approved operations under ADF-12 has been primarily on supporting

²⁵ Participation by regional member countries is increasing with expressed financial commitments from Burkina Faso, Chad, the Republic of Congo, and Cote d'Ivoire, while many have increased their national budgetary allocation to water and sanitation programs.

²⁶ An Infrastructure Growth and Action Plan for Nigeria is currently under preparation.

public financial management (PFM) and the business-enabling environment, through a mix of instruments including PBOs, institutional-support and capacity building programs, strategic technical assistances, and analytical and advisory services. High priority is given to supporting fragile states with the aim of rebuilding essential state functions, restoring service delivery and promoting inclusive economic growth. A third of the approved PBOs are linked to social sector support with the aim of improving delivery of basic services (Cote d'Ivoire, Ethiopia and Zambia).²⁷

Table 3: ADF-12 Governance/Multi- Sector Operations as of End-July 2012

(UA Millions)

Instrument/Window	ADF-12 Pipeline	Approved	Disbursed
Policy-Based Operations	1,075.54	812.48	371.7
<i>Of which PBA resources</i>		628.88	
<i>Of which FSF resources</i>		160.50	
<i>Other resources (cancellations)</i>		23.10	
Institutional Support Project	80.12	28.05	3.31
<i>Of which PBA</i>		24.05	
<i>Of which FSF</i>		4.00	
Total	1,155.60	840.53	375.01

3.25 The Fund's operational engagement during the ADF-12 period is being implemented at three levels:

- At the **country level**, the bulk of the ADF-financed operations (88 percent) have supported PFM reforms, with a particular focus on strengthening budget accountability and transparency functions. Other areas of focus under the PFM umbrella include strengthening national procurement systems, an area considered essential for maximizing development impact and mitigating fiduciary risk in all Bank Group operations; supporting domestic resource mobilization²⁸; and providing capacity building support for debt management through trainings, Information Technology upgrades and strategic planning (Central African Republic, the Democratic Republic of Congo and The Gambia).²⁹ The Fund has also increased its focus on economic management, combating corruption and strengthening private sector friendly policy, legal and institutional frameworks of RMCs. For example, over 50 percent of approved governance sector operations have component on business enabling environment for private sector development.
- At the **sector level**, the Fund supports actions and policy reforms aimed at enhancing business-enabling environment, including in fragile states (such as Sierra Leone, Liberia, Togo and Guinea); strengthening accountability and transparency in the management of public resources by promoting anti-corruption safeguards, especially in high-risk sectors, such as infrastructure and extractive industries, through the Extractive Industries Transparency Initiative (EITI). With support from the Fund, citizens in 21 RMCs now have access to information about revenues from their natural resources. The Fund has also contributed to the achievement of EITI candidacy status of 11 countries (Chad, Central African Republic, Burkina Faso, Guinea, Liberia, Madagascar, Mozambique, Sierra Leone, Tanzania, Togo and Zambia). Currently the Fund is supporting the production and dissemination of EITI reports in Guinea, Liberia, Mozambique, Sierra Leone, Tanzania, Togo and Zambia. Sierra Leone has started to disclose revenue from the mining industry. The Fund's support to EITI implementation will not only strengthen the management of

²⁷ See also discussion under the *Human Capital Development* section.

²⁸ The Bank Group has conducted country-level Domestic Resource Mobilization studies for Kenya, Tanzania, Nigeria and South Africa, among others. The studies provide analysis on the challenges faced by countries in mobilizing domestic resources and policy recommendations in areas such as tax policy and administration, customs revenue management and potential for domestic financial-market development at country or regional levels.

²⁹ In addition to ADF operations, the Bank Group provides training on debt management and debt sustainability, targeting civil servants from ministries of finance and Bank staff in collaboration with the World Bank and the International Monetary Fund.

natural resources but also improve the investment climate by providing a clear signal to investors and financial institutions that the government is committed to greater transparency and accountability.

- The ADF-12 support at the regional **level** focuses on promoting and harmonizing standards and codes of good economic and financial governance by facilitating the establishment of the networks and funding and/or providing advisory services in the area of tax administration, procurement systems, budget and revenue management and audit through the *Collaborative Africa Budget Reform Initiative*, the *African Tax Administration Forum*, the *African Supreme Audit Institutions*, the *African Network for Procurement Practitioners*, and the *Organisation for the Harmonisation of Business Law in Africa*. The ADF has also supported the establishment of three *African Technical Assistance Centers* that provide regional-level technical and advisory services in economic and financial governance. Other important initiatives hosted or supported by the Bank Group include the *Making Finance Work for Africa Initiative*, which aims to strengthen partnerships and enhance co-ordination to promote financial-sector development in Africa; the *African Investment Climate Facility*, which aims to assist regional member countries in designing and implementing programs in priority areas often considered bottlenecks to creating business-enabling environments; and the *African Peer Review Mechanism*, a voluntary self-monitoring mechanism to promote good governance. The Bank Group has also scaled-up its engagement in anti-corruption efforts with support for the establishment of the *African Association and Anti-Corruption Authorities* in 2011.

- 3.26 The Fund draws on the complementarity among its core priorities, cross-cutting themes and the ADB window to enhance its support for good governance and private sector development for inclusive and sustainable economic growth. ADF-12 supports the continent's private sector development agenda by assisting countries in financial-sector development, enhancing trade competitiveness, promoting public-private partnerships and deepening anti-corruption reforms. These efforts, combined with the overall orientation of the Fund's support for good governance at sector and regional levels, contribute to regional integration objectives.

Box 3: Examples of Results from Governance Support Operations³⁰

Liberia: Public Financial Management Reform Program and Institutional Support Program (2006-2012): The two complementary operations support Liberia's poverty-reduction strategy of attaining good economic governance and promoting prosperity and peace by improving its public-service delivery; and strengthening social safety nets by compensating the lost tax revenues from the agricultural sector associated with the government's food-relief price interventions. This support helped Liberia to achieve a number of reform objectives, reflected in its improved governance performance: the Mo Ibrahim Index of African Governance score rose from 28.2 (out of 100) in 2005 to 45 in 2011, with Liberia's ranking improving (from 50 out of 53 countries in 2005 to 36 out of 53 in 2011). Similarly, Liberia's performance in the Bank Group's CPIA ratings for economic management rose from 3.33 to 4.33 during the same period. The staffing and resource capacity of the office of the Auditor General was increased significantly, and a one-stop shop was created for the Revenue Authority. By 2010, the Doing Business Report listed Liberia as having reduced significantly the time-delay for traders.

Rwanda: Poverty-Reduction Strategy Budget Support Programs (2008-2011): The budget support programs were implemented with the aim of enhancing the investment climate by strengthening the private sector environment and deepening the financial sector; improving governance of public finances; and enhancing the government's institutional capacity to deliver quality services. The operations helped to improve Rwanda's Investment Perception Index, which surpassed the target of 71.2 percent by 1 percent in 2011. It's Doing Business ranking rose to 45th place in 2012, having been at 139/155 in 2006 and 58/183 in 2010. Loans to the private sector increased by 15 percent in 2008, and due to the establishment of an online business registration and an electronic land-registry system, outstanding progress was made for indicators such as "property transfer", "issuing building permits", and "business-registration formalities".

³⁰ Additional examples highlighting Program-Based Operations under ADF-12 are provided in Annex IV.

- 3.27 **Knowledge and advisory work** constitute an important part of the Fund's support in economic and financial governance. Examples include: work on *Public Expenditure Financial Accountability* assessments, which aim to improve shared analysis in 7 countries (Sierra Leone, Liberia, the Central African Republic, Lesotho, Tunisia, Cape Verde and Guinea-Bissau); and the launch, in 10 pilot countries,³¹ of "The African Governance Outlook", which serves as the Bank Group's flagship knowledge product on financial governance, informs evidence-based policy dialogue and improves quality-at-entry.
- 3.28 Furthermore, the Bank Group, in collaboration with external partners such as, the European Commission, the International Monetary Fund (IMF) and the World Bank, continues to undertake joint assessments and studies, such as the *Common Approach to Budgetary Aid in Situations of Fragility* (2010-11), with the aim of improving shared analysis and harmonizing operational approaches. The Common Approach paper has helped to strengthen the co-ordination and collaboration between the four institutions. Important recommendations of the paper include the need for improved knowledge of the political economy in fragile countries and contexts, and the need for a more comprehensive analysis of risk and enhanced aid predictability. In this regard, the Bank Group's consolidated *Fiduciary Risk Management Framework for PBOs*, completed in 2011,³² provides a rigorous approach for assessing and managing risks in budget-support programs. This is more so critical in fragile states where the need for policy-based instruments is the highest, and should be underpinned by robust fiduciary safeguards.
- 3.29 Consistent with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action,³³ the Fund's governance operations are increasingly **aligned to national development plans³³ and closely coordinated with development partners**. The Bank Group's role in policy dialogue and the promotion of development effectiveness in RMCs has also grown. For example, between 2009 and 2012, it was actively involved in 21 Budget Support Working Groups and 20 Public Financial Management Co-ordination Groups, of which it had chaired 10 and 4 groups, respectively.³⁴
- 3.30 To improve the design and delivery of its operations, the Governance Department has established an internal Quality Assurance Panel to ensure **systematic integration of lessons from project implementation and findings from independent evaluations**. The 2011 independent evaluation of PBOs showed that the Bank Group has made substantial progress in the use of PBOs as evidenced by its role as a significant partner in joint donor-budget support; in the design and delivery of its budget-support operations that have met the urgent financial needs of clients; and its pioneering role in some fragile states, such as Liberia. The evaluation has also identified challenges, including the need to (i) improve the capacity of field offices to engage fully in policy dialogue; (ii) strengthen the linkages between the Bank's engagement in PBOs and other operations; and (iii) broaden the use of PBOs, currently dominated by the governance sector, to other sectors. In addition to the PBO evaluation, a joint evaluation of PFM managed by the Bank Group, Denmark and Sweden was finalized in 2012 and provides important lessons on the role of donors in supporting PFM reforms.
- 3.31 Lessons from these important sources of evidence have been integrated in the new Program-Based Operations Policy and will inform the PBO Operational Guidelines currently under preparation. In operations, the Bank is increasingly using PBOs as multisectoral operations to address a set of challenges at country level, including the facilitation of policy actions across sectors and strengthening complementarity across the portfolio (as in Burkina Faso, Cote d'Ivoire, Ethiopia, Sierra Leone and Zambia). Innovation under ADF-12 has also included efforts to improve results reporting from PBOs.³⁵ A model has been developed and piloted to supplement project-completion reports in monitoring the financing contribution of Fund PBOs

³¹ Burkina Faso, Ethiopia, Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Tanzania and Uganda.

³² African Development Bank. 2011. *Fiduciary Risk Management Framework for Policy-Based Operations*. ADB/BD/IF/2011/95 - ADF/BD/IF/2011/78.

³³ Several internal reviews and external assessments show that alignment with national development plans and country ownership is one of the areas in which the Bank Group's performance has been consistently high.

³⁴ Angola, Burkina Faso, Burundi, Cameroon, Chad, Cape Verde, Central Africa Republic, DRC, Ethiopia, Gabon, Ghana, Guinea, Lesotho, Kenya, Madagascar, Malawi, Mali, Morocco, Mozambique, Rwanda, Senegal, Seychelles, Sierra Leone, Tanzania, Togo and Zambia.

³⁵ Tracking and attributing PBO results to a single organization remains a challenge for all development partners providing support for governance reforms. The Core Sector Indicators identified in 2010 are being modified to better capture ADF's support on economic and financial governance.

to development outcomes measured through population-level indicators, such as health and education outcomes. Management is also exploring options for supporting the demand side of governance, such as support to civil society and parliamentarians in holding their governments accountable for implementing reform commitments, the relevance of which has grown in importance in the region, as seen in the Arab Spring uprisings and protests across Africa.

- 3.32 Overall, the Fund has made good progress in delivering governance support and improving operational quality, as shown by the findings of the draft report on the mid-term review of the GAP. The review showed that while the Bank has done well at strategic selectivity in supporting PFM reforms at the country level, with a recent, gradual scaling-up of its support to business-enabling environments, more needs to be done in the area of mainstreaming governance at the sector level, particularly in infrastructure. Going forward, the Fund will continue to support RMCs in consolidating reform and tackling remaining challenges, including by enhancing governance mainstreaming through multisector PBOs.

Promoting Regional Integration

- 3.33 The Fund's strategic role and operational engagement in regional integration was reaffirmed under ADF-12 with the mandate to scale-up its support for regional infrastructure, regional public goods, and capacity building. Recognizing the strong demand for regional operations (ROs), the size of the RO envelope was increased to 20 percent of ADF-12 resources. The ADF RO Selection and Prioritization Framework³⁶ was introduced in 2011 to ensure a stronger focus on performance and development impact. The 2009 Bank Group's Regional Integration Strategy continues to guide the overall strategic orientation of the Fund's engagement, while Regional Integration Strategy Papers (RISP) further articulate interventions at the sub-regional level. This strong strategic framework covers the full spectrum of regional integration commitments, ranging from priorities identified by clients at national levels as well as those agreed at the continent level in the context of the Programme for Infrastructure Development in Africa.
- 3.34 The ADF-12 ROs support the regional integration agenda of the continent through increased focus on promoting economic integration and intra-regional trade of goods and services, including energy. This is also entirely consistent with the 2012 theme of the African Union Assembly: "Boosting intra-African trade". Furthermore, the Fund's approach to regional integration goes beyond promoting public and private investment in brick-and-mortar projects. It emphasizes the importance of soft issues, such as capacity building, trade facilitation and effective policy-making, for example, through assistance to the enforcement of regional treaties and strong partnership with regional institutions. For instance, the preparation and implementation of RISPs are being championed through the Regional Economic Communities (RECs) while also ensuring that future Country Strategy Papers fully reflect regional commitments and priorities.
- 3.35 In line with its ADF-12 commitment, in 2011 Management **rolled out the RO Selection and Prioritization Framework**, which provided a structured approach for filtering the best projects in the ADF RO pipeline, i.e. those projects that demonstrate strong alignment with the ADF's and client countries' strategic objectives; readiness, quality and potential for results; and sufficient development impact. The ADF's ROs selection and prioritization exercise is conducted annually, in the fourth quarter, through a rigorous and independent evaluation of all proposals received by the Fund. The cost-sharing mechanism established under ADF-11 and refined under ADF-12 was successful in incentivizing strong participation by ADF countries, including fragile states.
- 3.36 Following the selection and prioritization exercises in 2011 and 2012, a total of 24 projects (out of 36) were retained, representing an expected use of UA 1,115 million (96 percent of the RO envelope).³⁷ Ten of the selected projects are regional public goods (RPGs), valued at UA 170 million. All selected projects rated "Very Good" or "Good", indicating a high level of readiness, quality and results focus. This is further supported by the Readiness Review assessment, which showed that all selected projects for which an assessment had been conducted at

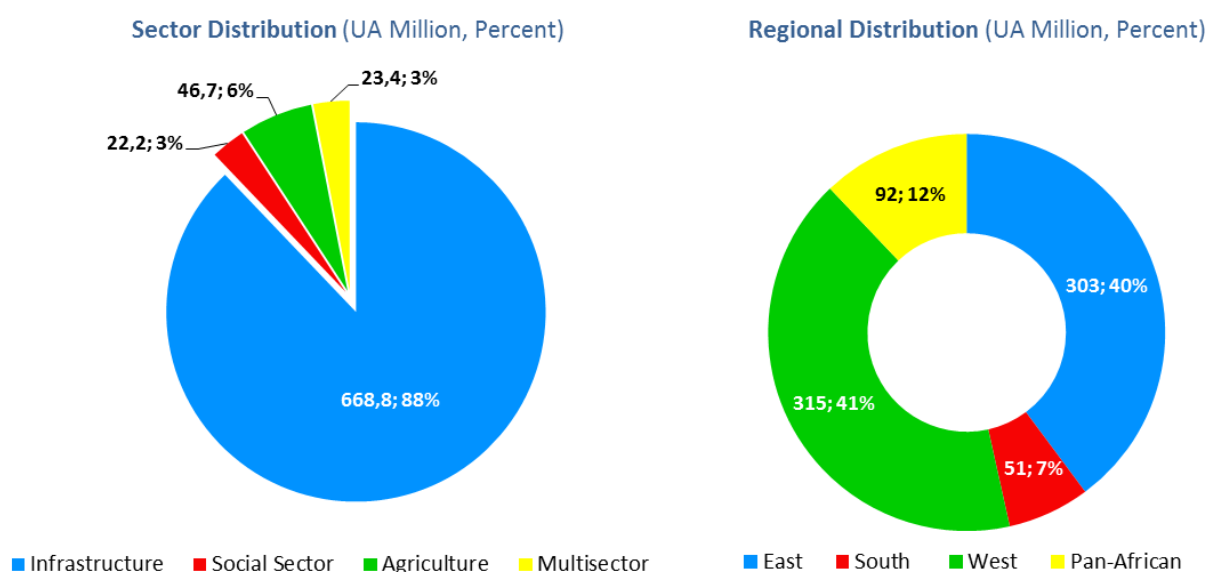
³⁶ African Development Fund. 2011. *Regional Operations Selection and Prioritization Framework*, ADB/BD/WP/2011/01 – ADF/BD/WP/2011/01.

³⁷ The remaining balance of resources is expected to be used in 2013 after the final round of the RO selection and prioritization exercise.

concept-note stage (12) were found to be “ready for appraisal” (25 percent of which represented a best-practice case). Annex I provides an update on the design of the Framework and lessons from early implementation.

- 3.37 As of end-July 2012, Board approvals of RO projects totaled UA 761 million, comprising of UA 536.1 million from the RO envelope and UA 203.5 million from the PBA. Strategic priorities agreed for ADF-12 were enforced, with the bulk of resources going to regional infrastructure (88 percent), followed by agriculture (6 percent), multisector – mostly capacity building of RECs (3 percent) – and human capital development (3 percent) (Figure 3). Twelve (12) percent (UA 92.4 million) of the approved projects are RPGs. Sectorial and geographic distribution is expected to evolve for the remainder of the ADF-12 period, with more emphasis on energy and better geographic balance. The combined pipeline of operations will bring better physical interconnectivity through 933km of roads, 5,330km of power lines, and 3,181km of optical fibre cables, resulting in extended economic markets, shared benefits of clean hydro-electric generation potential, and ICT connectivity. Support for RPGs, such as capacity building of RECs (*Capacity Building in Infrastructure Programming for African Union Commission/ New Partnership for Africa's Development (NEPAD) Planning and Coordinating Agency*), agriculture (*Support to Agricultural Research for Development on Strategic Commodities*) and higher education (support to the *African Virtual University* and the *Pan-African University*) complement the investments in hard infrastructure and contribute to skills development and the creation of jobs.
- 3.38 The integrated manner in which ROs are designed enables the Fund to **address other ADF-12 strategic priorities and cross-cutting themes**. For instance, fragile states account for nearly 60 percent of countries participating in the RO projects selected for financing in 2011-12. This helps to accelerate their reconstruction efforts through integration to neighboring countries and complement resources provided through the FSF and PBA. Regional infrastructure and economic integration also reinforce the development of private sectors, through increased market size and availability of stable energy production that are shared across borders. In an effort to create stronger cross-border linkages and improve the ease of doing business, the Fund supports integrated border management and training of border officials, and provides capacity assistance for simplification of documents and procedures, as well as the development of requisite knowledge products. These efforts help to lower transaction costs and increase efficiency, which are critical for incentivizing greater participation by the private sector.

Figure 3: Sector and Geographic Distribution of Approved Regional Operations



- 3.39 **Findings of the independent evaluation** the Bank's multinational operations (2000-2010)³⁸ affirm that the Bank Group has developed coherent and relevant strategic and operational frameworks to guide its assistance towards regional integration; and has increased significantly the share of multinational operations in its portfolio (from 6 percent in 2000 to 15 percent in 2010), while ensuring strategic selectivity and alignment. Findings also affirm that the Bank Group's operations respond to compelling needs of the continent and have generally achieved their objectives (at output level); and that the Bank Group's capacity to implement its regional integration mandate has significantly improved with the creation of the NEPAD's Regional Integration and Trade Department (ONRI) in 2006.
- 3.40 The evaluation has identified some challenges and areas for further improvement, including the need for (i) fine-tuning the strategic framework to enhance the Bank Group's contribution to regional integration, especially on "soft" constraints and regional public goods; (ii) a clearer definition of multinational operations across the Bank Group, and of the role of the private sector in regional integration; (iii) strengthening institutional arrangements and capacities, including better alignment of the mandate and resource capacity of ONRI; (iv) clarifying the division of labor between various Bank departments and strengthening the role of field offices in policy dialogue; and (v) aligning the Bank Group's business processes to better suit the specific challenges of regional operations, and ensuring systematic feedback and learning from Bank Group's experience.
- 3.41 These findings, as well as experiences and evidence gathered in the course of implementing regional operations, have provided valuable lessons for improving the design, implementation and financing of ROs under ADF-12, and for strengthening the Bank Group's strategic and operational engagement in support of regional integration (see also Section 4, paragraphs 4.7-4.8).

Assistance to Fragile States

- 3.42 Guided by the 2008 *Bank Group Strategy for Enhanced Engagement in Fragile States*, ADF-12 support to fragile and/or conflict-affected countries (hereafter fragile states) is aimed at assisting these countries and helping to prevent slippage for countries at risk through programs tailored to address the particular circumstances of fragility. Specifically, the Fund's assistance is directed at restoring basic state functions and systems, supporting the quick resumption and/or expansion of the delivery of basic services, and rebuilding institutional and human capacities. The strategy has been backed by the FSF, which has been used to provide additional resources to meet the unique operational and financing needs of the Bank Group's RMCs designated as fragile states
- 3.43 During ADF-12, the Bank Group has classified 17 countries as fragile states – nearly one-third of its regional member countries. Table 4 below summarizes the ADF-12 program of assistance to fragile states through the FSF framework.

³⁸ African Development Bank. 2012. *Fostering Regional Integration in Africa Evaluation of the Bank Group Multinational Operations 2000-2010*.

Table 4: ADF-12 Program of Assistance to Fragile States

	Supplemental Support (Pillar I)	Arrears Clearance (Pillar II)	Targeted Support (Pillar III)
Operational objectives	Provide additional resources, on top of the resources provided through the Performance-Based Allocation system, to support the rehabilitation and reconstruction of infrastructure, support governance reforms and rebuild institutional capacity.	Clear arrears of eligible re-engaging and transitional countries, to enable them to access debt-relief assistance from the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).	Provide targeted capacity building and technical assistance to eligible countries, including through non-sovereigns, to deliver services; and building and managing the Bank Group's knowledge about fragility and conflict.
Countries benefiting in ADF-12	Nine countries (Burundi, Central African Republic, Comoros, Côte d'Ivoire, Democratic Republic of the Congo, Guinea-Bissau, Liberia, Sierra Leone and Togo) are receiving second cycle of support in ADF-12; and three new entrants (Sudan, South Sudan and Zimbabwe) have been approved by the Board of Directors to access Pillar I resources, subject to agreeing with their creditors on a credible and irreversible arrears clearance financing plan.	Three countries currently in arrears with the Bank Group (Somalia, Sudan and Zimbabwe) could potentially benefit, subject to meeting the technical qualification for debt-relief assistance under the HIPC Initiative, a pre-requisite for Bank Group's arrears-clearance support. Recent socio-economic and political developments in Sudan and Zimbabwe indicate improvements their prospects for meeting the qualifications, although the timing for full re-engagement still remains uncertain.	Accessed by the full range of the 17 fragile states (Burundi, Chad, Central African Republic, Comoros, Cote d'Ivoire, Congo Republic, Democratic Republic of Congo, Djibouti, Guinea, Guinea-Bissau, Liberia, Sierra Leone, Somalia, Sudan, South Sudan, Togo and Zimbabwe).
Resources allocated, ADF-12	UA 405 million	UA 362.2 million (of which UA 3 million carried over from ADF-11).	UA 60.9 million (all of which carried over from ADF-11).

- 3.44 **Pillar I Operations:** As of end-July 2012, eleven (11) operations valued at UA 229.5 million (57 percent) of the total FSF Pillar I resources had been approved to support public-finance management and economic governance reforms, and to revive the delivery of essential public services by improving infrastructure networks in Burundi, Central African Republic, Cote d'Ivoire, Liberia, Sierra Leone and Togo.
- 3.45 **Pillar II Operations:** There were no arrears-clearance operations undertaken as at mid-term of the ADF-12 period. Among the three countries currently in arrears to the Bank Group (Somalia, Sudan and Zimbabwe), Sudan and/or Zimbabwe could still potentially qualify for this assistance during the ADF-12 period. Although Somalia is among the countries ring-fenced for debt-relief assistance from the Heavily Indebted Poor Countries Initiative, its prospects for meeting the requirements for arrears clearance during the ADF-12 period remain low.³⁹
- 3.46 **Pillar III Operations:** UA 20.11 million (33 percent) of the UA 60.9 million allocated under ADF-12 had been committed to support institutional capacity development in 13 Pillar III eligible countries and one regional initiative. Fifty (50) percent of the committed resources had been disbursed as at end-June 2012. Regional initiatives aimed at addressing issues critical to fragile states, such as the *International Conference on the Great Lakes Region*, the *Mano Union* and the *Indian Ocean Commission*, in which Comoros is a member, have also benefitted from Pillar III resources under ADF-11. Pillar III resources have been particularly instrumental in enabling the Fund to provide much-needed assistance to countries like Sudan, Somalia and Zimbabwe, where the Bank Group's financial support is limited due to long-

³⁹ See also the discussion paper *ADF-12 Resource Allocation*.

standing arrears, as well as to its newest member, South Sudan (see *Annex V*).⁴⁰

- 3.47 Progress made in fragile states since 2008: All nine countries that received support from Pillar I in ADF-11 met the test for a continuation of support under ADF-12. On balance, all nine countries had made progress in their transition and re-engagement efforts, and were broadly on track with their macroeconomic and structural-reform programs. Staff analysis shows a positive trend in terms of policy and operational performance as reflected in their CPIA and the Portfolio Performance Assessment scores over the period 2008-2011. Moreover, supervision reports suggest that the expected development results outlined in the results log-frame of each project in these countries are likely to be met. As investment and capacity building operations financed by the FSF are still under implementation it is still too early to reach firm conclusions about results and outcomes; nonetheless, there are some notable indications of progress in key areas as summarized below.
- A majority of these countries have improved their **macroeconomic performance** and continue to make progress in implementing their recovery and development programs, notwithstanding the challenges posed by the uncertain global economic and financial environment. They have also continued implementing **governance reforms**, including adopting and complying with the EITs (as discussed in paragraph 3.25). The countries' performance under the Bank Group's budget-support operations, and under the World Bank and IMF-supported programs, has also been broadly satisfactory. The consolidation of peace was identified as a critical challenge in some countries.
 - Seven countries (Burundi, Central Africa Republic, Cote d'Ivoire, Democratic Republic of the Congo, Guinea-Bissau, Liberia, Sierra Leone and Togo) have **reached the completion point under the Heavily Indebted Poor Countries Initiative** by meeting the agreed triggers, including preparing and implementing poverty-reduction strategies; maintaining macroeconomic stability; and strengthening public expenditure management. Comoros and Guinea are expected to reach the completion point in 2012. With a reduction of up to 90 percent of their external debt burden, countries that have reached the completion point are now directing more resources towards poverty-reducing expenditure (which on average grew from less than 8 percent of the GDP in 1999 to nearly 14 percent in 2011).⁴¹
 - **Pillar III operations** have supported actions for improving public-finance management in a number of countries (Sierra Leone, the DRC, Somalia and Sudan) and contributed to a marked improvement in tax collection by strengthening the audit function (Liberia). Pillar III has also helped enable Zimbabwe to prepare for arrears clearance and debt-relief operations, along with broader strengthening of public-finance management and improved capacity for service delivery in water and sanitation (the latter of which was primarily supported by the Zimbabwe-Fund), in advance of the country's eligibility for regular ADF support.
- 3.48 To further improve the quality of the Bank Group's engagement and its delivery of development assistance in fragile states, the Fragile States Unit has intensified efforts in knowledge activities. Studies completed during ADF-12 include "The Role of the Diaspora in Nation Building", "Lessons for Fragile States and Post-Conflict Countries", "The Bank's Public Sector Operations in Fragile States: Lessons Learned and Recommendations", "Perspectives on the Political Economy of South Sudan", and "The Role of Disarmament, Demobilization and Reintegration Programs in Post-Conflict Reconstruction".
- 3.49 The findings of the **independent evaluation of the Bank Group's assistance to fragile states** (1999-2009)⁴² have affirmed that this assistance has been responsive to country needs and capacities, especially since 2008; and that resources provided through the FSF (Pillar I

⁴⁰ Following the separation of South Sudan from Sudan in July 2011, the ADF Board of Directors approved the eligibility of South Sudan to resources from Pillar I (UA 17 million) and Pillar III (UA 4.8 million), as well as the apportionment of UA 10 million from Sudan's 2011 PBA country allocation.

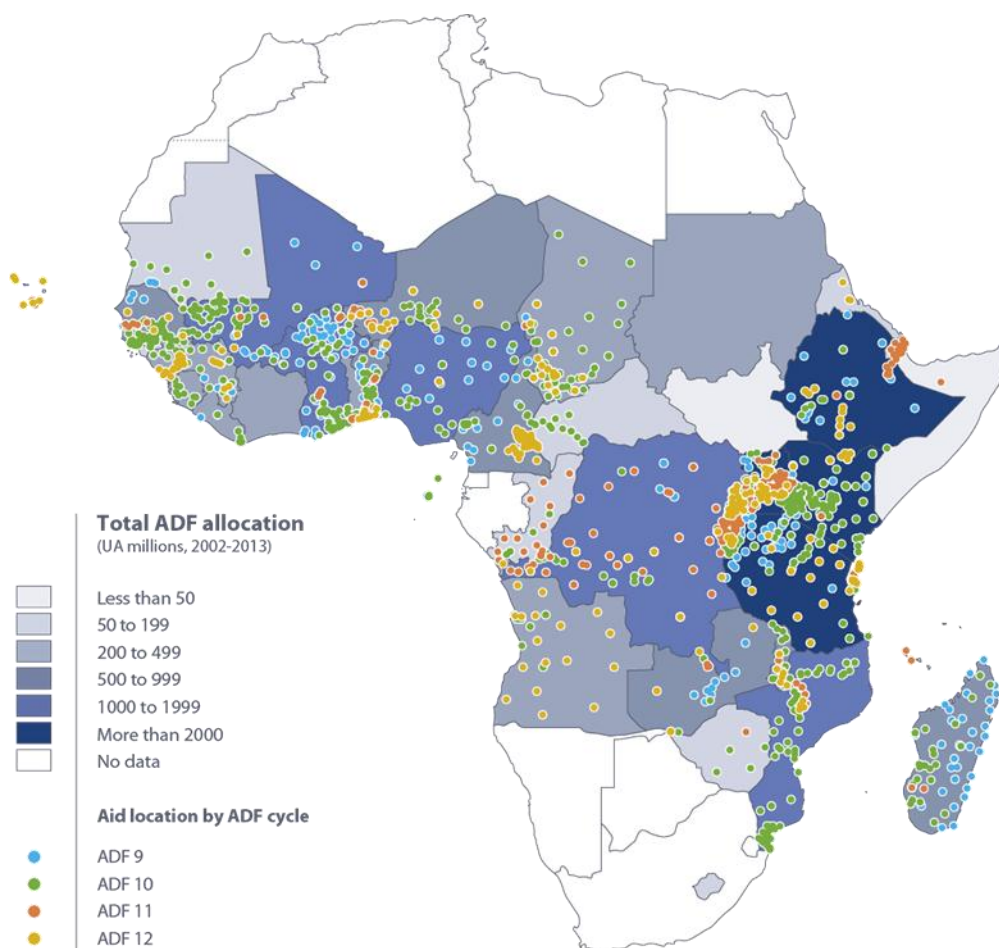
⁴¹ The International Development Association and the IMF. November 2011. *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation and Proposals for the Future of the HIPC Initiative*.

⁴² African Development Bank. 2012. *Evaluation of the Assistance of the African Development Bank to Fragile States*. ADB/BD/WP/2012/48 – ADF/BD/WP/2012/29; and Management Response ADB/BD/WP/2012/48/Add.1 – ADF/BD/WP/2012/29/Add.1

and Pillar II) for infrastructure and governance support, and for arrears clearance, have been particularly effective. The evaluation also identified weaknesses in the implementation of the 2008 Strategy, especially as regards the performance of the targeted-support window (Pillar III), which, it notes, had fallen short of meeting the Bank's ambitious goals. The report recommended that (i) the programming, design, and modalities of assistance to fragile states should be more coherently geared towards contributing to integrated peace-building and state-building objectives; (ii) the FSF resource-allocation modality and eligibility criteria be revisited with the view to enhancing the Bank Group's responsiveness to changing circumstances; and (iii) the current institutional arrangements and processes be re-evaluated, with a clearer definition of roles and capacities of the various departments working on issues relevant to fragile states, including regional and sector departments and the Fragile States Unit.

- 3.50 Management has already started taking action to address these challenges in a deliberate and comprehensive manner, including further reflections on the Bank Group's strategic and operational frameworks for engaging in fragile states and institutional arrangements (see section 4.5 - 4.6).

Figure 4: Distribution of ADF Investment Operational Activities, Active Portfolio



Notes: The map depicts only investment operational activities that could be geographically located, and for which there is complete data in the Bank's system (SAP). Other operations such as budget support, institutional capacity building and technical assistance are excluded.

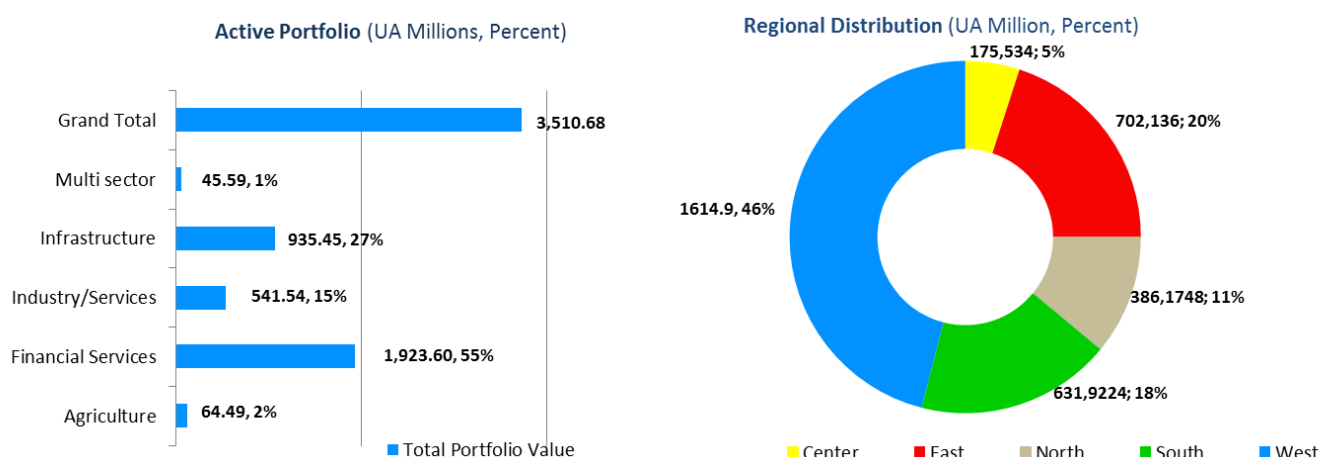
II. Implementation of Cross-Cutting Themes

Private Sector Development

- 3.51 Acknowledging the critical role of the private sector in supporting RMCs' efforts to tackle major development challenges, during the consultations on the ADF-12 replenishment and the Bank's Sixth General Capital Increase it was agreed that the Bank Group will leverage its different financing windows to maximize its support and operational capacity. It was also agreed that Management would develop a Bank-wide private sector policy and strategy that would guide its strategic orientation and operational engagement in private sector development (PSD) on the continent in the context of a "One-Bank" framework. The draft Policy and Strategy (Box 4) position PSD not as a distinct sector or instrument, but as a cross-cutting objective to which all Bank Group operations should aim to contribute.⁴³
- 3.52 The implementation of the Bank Group's operational and strategic support for private sector development under ADF-12 can be summarized as follows: (i) private sector investments in ADF countries and priority sectors; (ii) operations combining or mobilizing ADF and ADB resources in a complementary manner; and (iii) early experience in implementing the ADF Partial Risk Guarantees. This is being complemented by governance sector operations that contribute to improving the business enabling environment and competitiveness of the private sector.
- 3.53 Private sector investments in ADF countries: The Bank Group has scaled up its non-sovereign lending to ADF-eligible countries over the past few years. Over 50 percent of the active portfolio, including regional operations, is located in low-income regional member countries eligible for resources from the ADF window (ADF-only countries) or a blend of resources from the ADF and ADB windows (blend countries). The proportion of direct private sector operations in ADF countries has increased from 30 percent in 2007 to 48 percent in 2011, while multi-country operations that support regional integration have grown from 13 percent to 27 percent over the same period. As at end-July 2012, non-sovereign commitments by volume in ADF-eligible countries amounted to UA 3.5 billion (Figure 5). In terms of sector focus, 55 percent of the operations target financial services, while 27 percent and 15 percent finance infrastructure and industry and services, respectively.

Figure 5: Private Sector Operations in ADF Countries as at End-July 2012

(In UA Millions and Percent)



⁴³ The Board's Committee on Operations and Development Effectiveness cleared the draft Private Sector Development Policy and Strategy for external consultation in March 2012. The final Policy and Strategy will be presented to the Boards of Directors for consideration in Q4 2012.

- 3.54 Through its private sector operations, ADB financing has also supported other ADF-12 priorities, such as regional integration, infrastructure development, fragile states and human capital development. Projects such as *the Rift Valley Railways Project*, connecting Kenya to Uganda, the re-financing of *Ethiopian Airways*, and the *Lome Port Expansion Project*, contribute to regional integration. The Bank has also supported private investments in fragile states, including a loan to *Zimbabwe's Lake Harvest* to enhance efficient fish production, and financing of the production of biomass for energy through *Sierra Leone's Addax Project* to help reduce dependency on petroleum products. Capacity building trainings provided through grants from the Fund for African Private Sector Assistance to local and regional banks and their clients are aimed at enhancing human capital, while financing of SMEs through lines of credit (Rwanda and several West African countries through Banque ouest-africaine de développement⁴⁴) will help to create jobs and increase the generation of tax revenues, foreign exchange, and productive goods and services. The Bank's experience in financing a tertiary education program in Namibia will provide important lessons on how such investments could be replicated in low-income countries to enhance the involvement of the private sector in human capital development.

Table 5: Private Sector Operations in ADF Countries, 2011-2012 Selected Expected Outputs

Infrastructure	Financial Sector
2,400 MW electricity generation capacity installed 400 kilometers of new transmission lines constructed 925,000 people benefit from electricity connection 5,600 kilometers of road/rail constructed or improved 58 million new users of port and rail transport	566 SMEs and 26 financial institutions supported 919,454 people with access to financial services/facilities 2,901 investments within 10 years, with average investment size of UA 121 million 680,000 policies re-insured, facilitating insurance penetration rate of 9% in Africa UA 142 million in increased export earnings
Social Sector	Agriculture and Agro-Industries
35,000 people (teachers and health workers) trained 1,800 houses constructed	960,000 tons/year increase in crop production resulting from project 10,000 hectares of land irrigated 83,000m³ of ethanol produced annually
Common Core Indicators	
559,000 jobs created, of which 67% permanent 46,000 jobs held by women UA 1.2 billion worth economic and financial linkages created with local business, SMEs etc. (present value)	UA 1.7 billion in foreign exchange gain (present value) UA 550 million/year in net tax revenue (5 year average)

Notes: Based on ex ante Additionality and Development Outcome Assessment (ADOA); All UA values correspond to 5-year average, or 5-year present value.

- 3.55 Leveraging the complementarity of ADF and ADB resources: Efforts have been scaled-up to better leverage the complementarity between the Bank Group's financing windows and reinforce strategic engagement at the country level through ADF financing along with private sector operations. For example, in 2010 Cape Verde received private sector funding for the *Cabeolica Wind Power Project* located on several islands. This was followed in 2011 by ADF financing for an interconnection and transmission project covering all islands, which was reinforced with an ADB budget-support operation designed to support PFM and strengthen the business-enabling environment. In Cameroon, ADF was used to finance the *Lom-Pangar Hydroelectric Project* while ADB resources financed the private construction of the *Dibamba power plant* that sells its generated electricity to the state. Similarly, the *Itezhi-Tezhi Power Plant and Transmission Line Project* (Zambia) and the *Menengai Geothermal Power*

⁴⁴ Countries of operation of the Banque ouest-africaine de développement of the Union Economique et Monétaire ouest-africaine include Senegal, Mali, Burkina, Cote d'Ivoire, Togo, Benin and Niger.

Development Project (Kenya) are other examples that combine ADF and ADB financing.

- 3.56 **Implementation of the ADF Partial Risk Guarantee (PRG) instrument:** The PRG instrument was rolled out during ADF-12 as agreed with ADF Deputies (*details provided in Annex II*). Following the approval of the instrument and operational guidelines by the Boards of Directors, an inter-departmental working group was established and has been tasked with developing a robust pipeline of national and regional projects, including in fragile states. As reflected in the pipeline under development, the ADF PRG instrument is particularly needed in the energy sector. The main opportunity lies in using scarce concessional resources to backstop government's obligations under power purchase agreements to be signed between the national utility and investors looking to develop and operate independent power plants. The PRG crowds in commercial financiers by providing them with the comfort that perceived political risks are mitigated. This in turn would allow the private sector to undertake the needed independent power producer investments. Apart from the newly introduced PRG instrument, the Bank Group's participation in PPPs in low-income countries is on the rise, as mentioned in previous sections.
- 3.57 Besides direct operational engagement, the **Bank Group's Procurement Policy is geared towards supporting regional and national businesses in Africa**. Analysis conducted by Bank staff shows that African contractors, suppliers and consultants obtain significant business in Bank Group-financed projects. Between 2009 and 2011, out of the approximately 6,900 contracts (valued at approximately UA 4.3 billion) recorded in the Bank's system, over 90 percent (by number of contracts and about 40 percent by value) went to African firms or individuals. In addition, payments made over the same period for small-value contracts through revolving funds amounted to approximately UA 3.3 billion. Bank Group staffs have estimated that almost all were payments made to African SMEs or individual service providers. This does not include assistance given to the countries through budget support or policy-based loans, a significant amount of which is normally spent on procurement from local industries. Thus, while the ADF projects are designed to primarily assist RMCs in meeting their economic and social development objectives, it is evident that ADF project-implementation activities themselves result in substantial job creation and business opportunities for African SMEs.

Box 4: Highlights of Bank Group Private Sector Development (PSD) Policy and Private Sector Development Strategy

The new Bank Group PSD Policy aims to contribute to broad-based and sustainable economic growth and development in all regional member countries by supporting improvement of the investment and business climate and strengthening international competitiveness of RMCs; developing social and economic infrastructures and increasing access by households and enterprises to reliable, quality services; and developing a vibrant private sector ecosystem of productive enterprises, financial intermediaries, capital markets, and corporate-service providers, with the entire system supporting the creation of jobs, rising incomes in real terms, and improved social well-being.

Drawing from the Policy, the draft PSD Strategy is structured around three pillars: Pillar I (Business-Enabling Environment) which comprises all "soft" enablers across economic sectors, such as the role of government, its governance capacity, and its interaction with private sector actors. Pillar II (Social and Economic Infrastructure) includes "hard" enablers, such as the effective provision of public goods and services that are vital for the private sector to generate inclusive growth. Pillar III (Productive Enterprises) focuses on developing entrepreneurs, deepening and expanding financial and capital markets to serve different types and sizes of enterprises, and enhancing enterprises' access to business-advisory services.

Climate Change

- 3.58 Addressing the impact of climate change on the continent and maximizing the opportunities it presents are two of the core businesses of the Bank Group. Following the creation in 2010 of the Energy, Environment and Climate Change Department, the Bank Group's climate change institutional capacity was significantly strengthened with the Department providing technical leadership in developing climate friendly projects, mainstreaming climate change in country strategies, mobilizing additional climate finance and designing the Bank's Green Growth

Framework⁴⁵. Furthermore, in 2011 the President of the Bank Group established the Co-ordination Committee on Climate Change to improve the co-ordination of climate change-related work in the Bank, ensure coherence and consistency among organizational units, and maximize the impact of the Bank Group's engagement at country, regional and global levels.

- 3.59 Consistent with the Bank Group's vision and Management's ADF-12 commitments, efforts have been intensified to accelerate **climate change mainstreaming into the Bank Group's operations and programming documents** (such as country or regional strategy papers) in an innovative and more deliberate manner. The Bank Group's Climate Safeguards System (CSS) was developed in 2011 to assist project teams in identifying and assessing climate change risks in their operations, especially in the most vulnerable sectors (agriculture, water, energy and transport).⁴⁶ The CSS also provides a guidance manual for screening and evaluating options and solutions (the Adaptation Review and Evaluation Procedures) that will be critical for ensuring a standardized framework that will be regularly applied across sectors. In addition to operations, climate change mainstreaming in CSPs was initiated in 2011-12 on a pilot basis (in Benin, Burundi, Burkina Faso, Ghana, Madagascar, Mali, Mauritius, Morocco, Mozambique, Sao Tome and Principe, and Tunisia). Building on the lessons learned during this pilot phase, specific guidelines are being drafted for mainstreaming climate change into CSPs and RISPs.
- 3.60 The implementation of **climate change adaptation and mitigation measures** remains a vital element of the ADF's operations at national and regional levels as committed in the Bank Group's Climate Change Management and Adaptation Strategy and the Clean Energy Investment Framework. The Bank Group plans to invest about USD 6.4 billion over a five-year period (2011–2015) through its Climate Change Action Plan (CCAP) 2011-2015 in the energy, transport, water and agriculture sectors to support low-carbon and climate-resilient development in Africa. The CCAP provides practical guidance on climate change adaptation and mitigation measures in Bank Group-financed operations. Annex III provides a more detailed update on the implementation of the CCAP. In addition to climate-proofing its investments and developing the requisite policy, legal and regulatory frameworks, the Bank Group is also engaged in knowledge generation and capacity building initiatives to better inform its operations and guide its engagement with its clients.⁴⁷ Furthermore, as part of the effort among Multilateral Development Banks (MDBs) and DFIs on tracking climate change financing, the Bank is leading the development of the joint MDB Adaptation Tracking methodology. The Mitigation Tracking methodology, which is led by the Inter-American Development Bank, is largely ready. The application of the methodology on Bank Group-financed projects that address climate change mitigation and were approved in 2011 has yielded an estimate of USD 925 million of financing from the ADB/ADF and USD 185 million from external resources.
- 3.61 The Bank Group has **supported RMCs to access concessional climate finance** from dedicated facilities such as the Climate Investment Funds (CIFs), the Global Environment Facility, the Sustainable Energy Fund for Africa (starting in the second half of 2012) and the Africa Carbon-Support Programme (currently focused on technical assistance and preparatory work). During 2011-12, CIF committees endorsed 7 country investment plans, and the Bank approved 5 projects and 8 project preparation grants amounting to a total USD 355 million. Similarly, the Global Environment Facility's Council approved 4 programs/projects – including the flagship African Climate Technology Finance Center and a private sector program for renewable energy development – amounting to USD 62 million (*details provided in Annex III*). The Sustainable Energy Fund for Africa⁴⁸ was launched in late 2011 and serves as a multi-

⁴⁵ The Green Growth Framework would provide Bank staff with operational guidelines on how best to support African economies achieve inclusive growth, use natural resources in an efficient and sustainable manner, and build resilience to climatic, environmental and socio-economic shocks.

⁴⁶ The next phase of the CSS roll-out will focus on screening tools for the social sector (health and education) and linking the CSS with work currently being led by the Bank Group on harmonising MDBs' climate finance tracking approaches and methodologies.

⁴⁷ In 2011, the Bank Group provided trainings, under the theme *Mainstreaming Climate Change and Environmental and Social Safeguards in Bank Operations*, to about 350 experts and officials from the five sub-regions (in Uganda, Zambia, Nigeria, Senegal, Cameroon and Morocco). Post-training evaluations showed that 95 percent of the 350 trainees found the workshop to have enhanced their general understanding of climate change and of the Bank Group' environmental and climate change safeguards requirements and procedures. Training sessions were also held for Bank staff. Over 60 staff and members of senior management participated.

⁴⁸ The Fund was seeded with USD 56 million from the Government of Denmark.

donor platform for catalyzing private sector investments in small and medium renewable energy and energy efficiency projects. Since 2011, the Bank Group's Africa Carbon-Support Programme has been used to facilitate access to the Clean Development Mechanism by RMCs as well as for projects in the Bank Group's pipeline that have the potential to displace CO₂ emissions. Examples of countries and projects benefiting from the program include Mali, the *Itezhi-Tezhi Power project* in Zambia, and the *Ethiopia-Kenya Interconnection Project*.

- 3.62 In line with its commitment on **collaboration and complementarity with other development partners**, the Bank Group works in partnership with key regional and international institutions, as it also strengthens its role in mobilizing a strong and unified African voice on climate change. Since 2008, the Bank Group has provided technical and financial support to the African Negotiators to the UN Framework for Climate Change Convention and to the African Ministerial Conference on the Environment. A flagship partnership product in 2011 was the establishment of the African Pavilion during 17th conference of the parties of the Convention, held in Durban, South Africa. This was the first time Africa had a dedicated platform at the conference for high-level engagement. The Bank Group also co-hosted the Africa preparatory process in the run-up to the UN Conference on Sustainable Development Rio+20, with a view to building a consensus on Africa's key priorities and concerns to be reflected in the conference.

Box 5: Participatory Integrated Watershed Management Project – The Gambia

The *Participatory Integrated Watershed Management Project*, which was approved in 2006 (USD 17.6) and is jointly financed by the Bank Group (Nigeria Trust Fund), the International Fund for Agricultural Development, the Government of Gambia, project beneficiaries and the Global Environmental Fund (USD 4.5 million), aims to address the problem of soil degradation and water management across the Gambia. The project primarily targeted 140,400 low-income smallholders (52 percent of whom are women) whose livelihood depended on cultivation of traditional crops. Prior to the project, the land in the targeted areas was not cultivable due to severe soil degradation in the uplands and siltation in the lowlands.

Although the project is still under implementation, important achievements have already been made, including: (i) making available 5,800 hectares of land for cultivation by rehabilitating degraded land and improving soil quality; (ii) substantially increasing agricultural output, with total crop production growing from 4,503 to 25,573 metric tons per year (an increase of over 80 percent); and an increase in the contribution from the project area to national rice production from 3.57 percent to 12.08 percent.

Gender Mainstreaming and Human Capital Development

Gender Mainstreaming

- 3.63 The 2011 review of the implementation of the *Bank Group Updated Gender Action Plan 2009-2011* has highlighted some encouraging trends in gender mainstreaming in designing Bank Group operations, especially in the human development and water and sanitation sectors, where 66 percent and 55 percent of projects, respectively, were found to be gender responsive. The review indicated that although there were a few good practices in infrastructure, agriculture and private sector projects, challenges still remain in mainstreaming gender fully in these sectors.
- 3.64 Some examples of ADF-supported investment operations with greater focus on gender equality include: (i) the *Vocational and Technical Education Development Support Project* in Niger and the *Kigali Regional ICT Centre of Excellence Project* which seek to increase girls' enrolment by at least 20 percent over a period of three to five years (see also Annex IV); (ii) social protection support through the *Small Entrepreneurs Loan Facility Project* in Tanzania and the *Rural Income and Employment Enhancement Project* in Uganda that provide 25 percent to 50 percent of women entrepreneurs access to micro-credit and savings schemes and training in entrepreneurial skills; (iii) agriculture projects in Liberia (the *Agriculture Sector Rehabilitation Project*), Uganda (the *Markets and Agricultural Trade Project*) and the multi-national *Bugesera Natural Resource Support Project* designed to increase women's access to resources including land, cattle, agro-processing value addition and storage facilities; and (iv)

water and sanitation projects that aim to increase access to potable water and reducing the time women and girls spend fetching water (for example, from one hour per trip to 15 minutes in the case of the *Three Towns Water Supply and Sanitation Project* in Sierra Leone).

- 3.65 Under ADF-12, Management has taken measures to strengthen the Bank Group's strategic framework and institutional capacity to improve progress towards achieving its objectives in the promotion of gender equality in RMCs. At the operational level, key activities include refining gender-mainstreaming tools, deepening analytical work, and providing advisory and capacity building support.
- The Bank Group's **gender-mainstreaming tools** are continuously refined to better support the design, implementation and monitoring of projects. Examples of tools developed under ADF-12 include: (i) a staff-guidance note on the gender dimension of quality-at-entry standards, with five criteria, that is now integrated in the readiness review of public-sector operations; (ii) a guidance note on integrating the promotion of gender equality in policy based operations, which is being piloted in selected countries in late 2012; and (iii) a roadmap for establishing a gender equality tracking system, which is expected to be operational towards the end of 2012.
 - **Analytical work** is routinely undertaken to better inform the Bank Group's work in the promotion of gender equality and women's empowerment. In addition to Country Gender Profiles,⁴⁹ analytical products recently completed include (i) a study on gender-responsive budgets with case studies in four countries (Ghana, Mauritius, Tanzania and Uganda), which will also inform the Bank Group's effort to build the capacity of regional member countries in institutionalizing gender-responsive budgets; (ii) an assessment of the Bank Group's education, health and poverty-reduction operations; (iii) a synthesis study reviewing international experiences of gender mainstreaming conducted by the Operations Evaluation Department; and (iv) a flagship report on the state of gender equality in Africa which will be launched in 2012. Findings from these studies are being used to inform the Bank Group's advocacy efforts and policy dialogue with clients, and are feeding into the new Bank Group Gender Strategy currently under preparation (see paragraph 3.67).
 - **Capacity building** workshops and trainings designed to create a better understanding of promoting gender equality as a development agenda and to build the skills of Bank professionals to improve their competency in gender mainstreaming. Notable examples⁵⁰ include the *Gender and Infrastructure Workshop*, organized in collaboration with MDBs and bilateral agencies, which brought together 145 participants from 20 regional member countries and representatives of various organizations, including civil society groups; and a seminar organized in collaboration with Organisation for Economic Co-operation/Development Assistance Committee on Social Institutions and Gender Index, which is a new composite measure of gender equality that introduces 12 innovative indicators.
 - As part of its **advocacy and policy dialogue**, the Bank Group in partnership with the "African Women's Network – New Faces and New Voices" organized the first *African Women's Economic Summit* in 2010. The Summit discussed challenges and opportunities of expanding women's access to financial products and services and promoting women in leadership structures in the sector. A second Summit, *African Women: Financing the Future* took place in July 2012. In addition to enhancing information sharing and advocacy about the importance of promoting inclusive financial services, the Summits are instrumental in delivering specific policy and operational commitments from key actors in the financial sector which will be monitored over a period of time.

⁴⁹ Country Gender Profiles inform the preparation of CSPs, and were developed in five countries (Burundi, Central African Republic, the Gambia, Mali and Sierra Leone) in 2011-12. Gender Profile dissemination workshops were held in the Gambia and Sierra Leone (two more planned towards the end of 2012 in Burundi and Central African Republic) which created opportunities for country dialogue on gender equality.

⁵⁰ In addition, gender trainings were held in Accra, Nairobi and Tunis to enhance the skills of 72 Bank staff; a seminar on Gender Equality and Economic Growth was hosted by the Bank Group in collaboration with Vivid Economics; and a workshop on gender statistics as part of the Bank Group's effort to strengthen regional capacity to produce gender statistics.

- 3.66 Efforts have also been stepped up to strengthen the Bank Group's **institutional performance on gender mainstreaming**, including by refining performance indicators to measure progress and establishing clear accountability on key commitments. The 2012 Annual Development Effectiveness Review shows that some progress has been made in this regard, with two out of three indicators showing good or moderate progress, although more remains to be done. Strengthening Bank-wide co-ordination is another area of action currently being led by the Gender and Social Development Monitoring Division of the Department of Quality Assurance and Results. The enhanced decentralization of operational management to field offices is expected to improve implementation and monitoring of operations, facilitate stronger engagement in policy dialogue, information-sharing and networking with clients and key development partners on the ground. The placement of gender experts in the two Regional Resource Centers in Nairobi and Pretoria in late 2012 will be instrumental in strengthening the Bank Group's advisory support and policy dialogue at country and sub-regional levels.
- 3.67 Informed by diagnostic work including the recent study, *Status of Gender Equality in Africa*, a new Bank Group **Gender Strategy (2012-2016)** currently under preparation proposes an evidence-based direction to the Bank Group's gender-equality work focusing on key strategic areas. The Strategy focuses on strengthening women's legal status and property rights; promoting women's economic empowerment; and strengthening knowledge management and capacity building for the promotion of gender equality.

Box 6: Empowering Women through Market Facility Improvements – Uganda

The Market and Agricultural Trade Improvement Project-1, approved in 2009 (UA 38 million), provides an integrated approach to gender mainstreaming by bringing together several ADF priorities (infrastructure, private sector development, agriculture and gender mainstreaming). The project aims to increase the income of women and men engaged in marketing agricultural produces by 30 percent by improving the infrastructure of 21 markets located in various peri-urban locations across Uganda. The markets supported by the project will be equipped with essential facilities, such as storage and processing rooms, waste-disposal facilities, water and sanitation services, and day-care centers for children of vendors.

Seven of the market facilities, due to be completed in 2013, will host 2,049 vendors, 46 percent of whom will be women and 25 percent of whom will be young people. In addition to benefiting from the improved facilities, women will actively participate in managing project implementation. For instance, construction of the facilities is managed jointly by local government authorities and the Vendor Committees, whose membership will be at least 60 percent women (i.e. 7 of the 11 members are women). The Committees will also be responsible for managing the allocation of spaces, resolving conflicts and securing the facility.

In response to request from vendors, discussions are currently underway with the International Fund for Agricultural Development and the Government of Uganda to provide microfinance support. Other African governments have expressed interest in replicating the project in their countries.

Human Capital Development

- 3.68 Underpinned by the Bank Group's inclusive growth agenda, support to human capital development has been scaled up under ADF-12. As demonstrated during the Arab Spring in 2011-12, demands for youth employment, voice and accountability as well as social inclusion have increased across Africa. There is a recognition that the continent is at the crossroad of a demographic transition and that the Bank Group should make the critical investments needed to seize the demographic dividend in the fight against poverty and social exclusion.
- 3.69 Requests from ADF countries for support in the social sector, such as education, health and social protection, have increased in ADF-12 and have largely outpaced the limited resources available for this sector. As a cross-cutting theme, the design and implementation of Fund-financed operations supporting human capital development are increasingly undertaken jointly by multiple departments within the Bank Group, especially those concerned with infrastructure, governance, agriculture and fragile states. As at end-July 2012, eleven (11) operations valued

at UA 208.9 million were approved specifically targeting human capital development.⁵¹ Additional operations valued at UA 196.7 million are planned for 2012-13. Results expected from these operations include job creation, improved quality of public services and public spending, and the protection of vulnerable groups against economic and social shocks through safety nets.

3.70 ADF-12 operations are designed to address challenges in the following three key areas:

- Support for **skills development and competitiveness** for jobs in the formal and informal sectors, by drawing on synergies in national and regional labor markets and innovations in the education sectors. Projects under ADF-12, such as the *Bamako Digital Complex Project* and the *Support for African Virtual University*, are putting into practice the New Education Model for Africa, an ICT-based education model.⁵² The New Education Model for Africa is based on a PPP financing which would allow educational institutions to tap into the experiences, knowledge and financial leverage of the private sector. The Fund's participation in a PPP project in support of Uganda's *Mulago Hospital* is also another example of an operation that cuts across multiple sectors and objectives.⁵³
- Promote **value for money and voice and accountability** by supporting public-sector management reforms and efficient public spending. ADF-12 operations are increasingly designed in a manner that takes into account public-sector efficiency and accountability concerns for all service-delivery sectors, and promotes results and value-for-money in public-finance management. One example is the *Emergency Program to Restore Basic Social and Administrative Services Project* (Cote d'Ivoire), a budget-support operation that was designed as an integrated package of support to improve service delivery in water, education and health, support productive social protection through income-generating activities and social safety nets, and address gender issues such as violence against women.⁵⁴
- Support for **social cohesion and inclusion**, which is particularly important in fragile and post-conflict contexts, by investing in innovative safety nets and sustainable solutions such as community-based development projects and microfinance operations, rehabilitation of ex-combatants, and support for productive safety-net programs. Fund-financed projects also contribute to the capacity development of poor and vulnerable groups by creating opportunities for high-productivity economic activities. Examples include Malawi's *Competitiveness and Job Creation Support* operations (Box 7) and Liberia and Burundi's labour-intensive road projects.

3.71 Lessons learned from operations financed under ADF-12, analytical works and impact studies have contributed to the formulation of a **Bank Group Human Capital Development Strategy (2012–2017)** which aims to drive the inclusive-growth agenda by promoting job-creation and pro-poor economic growth. Education, nutrition, health and safety nets are inextricably linked with economic growth and poverty reduction. The strategy is therefore based on the above-mentioned three pillars: (i) improving competitiveness and employment opportunities; (ii) value-for-money and accountability in service delivery; and (iii) risk protection, inclusion and social cohesion. In addition, in collaboration with the Private Sector Department, the Human Development Department is developing a strategy that aims to promote private investment, including PPPs, in the delivery of health and education services, and in the creation of social businesses. The Fund will support pilot programs to demonstrate the business case for private investment, and mechanisms to involve local financial institutions.

⁵¹ The financing details of operations co-designed with and/or linked to other sectors including *Cote d'Ivoire Budget Support* (UA 102.5 million) and *Zambia Budget Support* (UA 15 million), and *Bamako Digital Complex* (UA 14 million) are reported under Governance and Infrastructure headings respectively.

⁵² The African Virtual University has established the largest network of Open Distance and eLearning institutions in over 30 sub-Saharan African countries and won the 2011 "Education-Portal.com" prize.

⁵³ The project cuts across two service sectors of high economic returns, higher education and health with the objectives of (i) increasing access to quality and affordable health care services for the population of the Kampala and metropolitan area (estimated 3 million people, the majority of whom are women and children under 15 years of age); (ii) transforming Mulago Hospital into a center of excellence in health-care service delivery and education and training for students of the health sciences; and (iii) expanding and improving health facilities and services by constructing two new general referral hospitals that are expected to create about 600 new jobs.

⁵⁴ Similarly, the central theme of the *Ethiopia Protection of Basic Services* operation (approved in July 2012), led by the Governance Department, will be strengthening PFM for decentralized delivery of basic services.

Box 7: ADF Support to Human Capital Development in Malawi

The *Competitiveness and Job Creation Support project* in Malawi is designed with the objective of improving the capabilities and the competitiveness of the private sector and increasing export diversification and job creation. The simultaneous funding of the *Malawi Support for Higher Education, Science and Technology Project* supports the government's efforts to improve the quality and relevance of skills for job creation and employability.

The two projects are complementary, focusing respectively on skills development and value chain and access to finance. The projects also build on previous ADF interventions in Malawi, such as the ADF-10 project *Support to Local Economic Development*, which had focused on income-generating activities and on creating an enabling environment for investment and growth. The projects will also prepare the ground for the Bank's private sector operations by building the capacity of financial institutions to deliver services to micro, small and medium enterprises.

In order to encourage and support innovation and challenge the private sector in areas of product development, marketing and business linkages, the project will launch a bi-annual competition for the support of innovative projects. The Bank Group will bring added value to the Malawian private sector by focusing on developing a critical mass of micro, small and medium enterprises, which currently employ about five workers on average, to grow into enterprises employing over 25 workers each, by developing their entrepreneurial skills and facilitating their access to finance.

Agriculture and Food Security

- 3.72 During the ADF-12 replenishment discussions it was agreed that the Agriculture Sector Strategy 2010-2014 would guide the Fund's operations to help client countries increase agricultural productivity, improve food security, and reduce the adverse impact of climate change. It was also agreed that the Fund would align its activities more closely with the Comprehensive African Agriculture Development Program, in light of the program's strong African ownership. In line with this commitment, ADF-12 investments are primarily geared towards building and rehabilitating rural feeder and access roads, markets and storage facilities; supporting agro-processing and reducing post-harvest losses; supporting regional trade and export infrastructure, and scaling-up support for rural water-management and irrigation systems. Interventions include also capacity building components to strengthen the capacity of producers and agricultural service providers.
- 3.73 Agriculture sector approvals as at end-July 2012 amounted to UA 256.3 million (44 percent of the total ADF-12 projection for the sector). Eleven (11) out of 21 agriculture operations to be financed ADF-12 are in rural infrastructure, and account for UA 220 million (37 percent) of the UA 587.9 million cost estimates of the pipeline of projects in the agriculture sector. The operations specifically target the rehabilitation of production infrastructures and the construction of access roads and storage facilities. The ADF support also includes technical assistance designed to strengthen the capacity of agricultural services and producers. Women are estimated to make up about 60 percent of direct beneficiaries of ADF-financed agriculture projects and are specifically targeted for capacity building support given their crucial role in agriculture and food production.
- 3.74 The challenges in the agriculture sector in Africa are inextricably linked with challenges and emerging issues associated with climate change. The Bank Group, in collaboration with the World Bank, is supporting countries in integrating climate risk and resilience into their development planning through the Pilot Program for Climate Resilience with resources from the Strategic Climate Fund. Three pilot countries, Mozambique, Niger and Zambia, are slated to implement sustainable land and water resources management under the Pilot Program for Climate Resilience with a total of USD 103 million resources to be administered by the Bank Group. The Bank is also supporting countries in implementing the Reducing Emissions from Deforestation and Forest Degradation commitments through the Forest Investment Program. To this end, the Bank is coordinating the preparation of the Forest Investment Plan for Ghana, while the World Bank is doing the same in the Democratic Republic of Congo and Burkina Faso. The Global Environmental Facility is another source of external financing the Bank Group is tapping into (*details provided in Annex III*).

- 3.75 Partly as a result of climate change, food security crises continue to pose serious challenges and development risks across several countries, more recently in the Horn of Africa and the Sahel regions. In view of the prevailing humanitarian challenges caused by the recurrent droughts and conflict in the Horn of Africa, the Bank Group has pledged USD 300 million to finance a program of support through the *Horn of Africa Drought Resilience and Sustainable Livelihood Program*. The Program covers eight countries and provides capacity building support to the Inter-Governmental Authority on Development Secretariat.
- 3.76 Similarly, in response to the food crisis in the Sahel region, the Bank is developing a integrated program covering 10 countries affected by the drought⁵⁵. Recurrent droughts and food insecurity in the region that affect millions of people, combined with deteriorating security situation in the northern Sahel, pose a major risk of humanitarian disaster. The Fund's program of support aims to strengthen the resilience of the region and reducing its vulnerability to adverse impact of climate change and stem the recurrent cycle of famine. The program targets nearly a million small holder farmers and pastoralists, and will complement ongoing Bank Group operations estimated at USD 1.3 billion.⁵⁶
- 3.77 The African agriculture sector has enormous potential for growth and occupies a dominant position in RMCs' economies. However, it is experiencing a sharp decline in productivity, largely due to the dilapidated state of rural infrastructure and shortcomings in policy directions and spending prioritization by governments. The food deficit in Africa is estimated at over 30 percent and poverty affects 60 percent of the African population. While the Fund's operations in the agriculture sector respond to these challenges by focusing on infrastructure development and integrating climate change adaptation and mitigation measures, mobilizing sufficient funds for agriculture and natural resources management remains a challenge. Going forward, the Fund will continue to explore opportunities to leverage additional resources through increased partnerships and co-financing at the country level, as well as through innovative financing instruments that could attract private sector investments in the agriculture sector.

Box 8 : Support to Agricultural Research for Development of Strategic Crops in Africa

The *Support to Agricultural Research for Development of Strategic Crops in Africa Project* is a regional public good project (approved in 2012) with a total cost of UA 53.8 million, of which UA 39.90 million is financed by the ADF regional operations envelop and UA 13.9 million from counterpart contributions. The project is co-implemented by three Africa-based agricultural research centers – AfricaRice, International Center for Agricultural Research in the Dry Areas and International Institute of Tropical Agriculture – and provides support in four areas: agricultural technologies and innovations generation; agricultural technologies and innovations dissemination; capacity building; and project management.

The objective of the project is to enhance food and nutrition security and contribute to poverty reduction in low-income regional member countries. Expected outcomes include a 20 percent yield increase in cassava, maize, rice and wheat; a 60 percent increase in average annual household cash income from USD 370 to USD 600; and a 20 percent increase in food security (to 84 percent from present 73 percent). It is expected that over 463,000 people would be lifted out of poverty as a result of increased crop production, while over 840,000 individual farmers and consumers, farmers' groups (including youth and women), traders, businesses, policy makers and institutions from 20 countries participating in the project will benefit directly.

The timing of this project is particularly important given that food security and nutrition issues are high on the national and regional agenda across the continent. With the approach of working across the full value chain of each crop, the project allows for a continental coverage of the food security challenges in Africa.

⁵⁵ Burkina Faso, Cape Verde, Chad, Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Niger and Senegal.

⁵⁶ See also the ADF-12 discussion paper *Institutional Effectiveness: Improving Delivery Capacity in a Changing Context*.

4. Implementation Challenges and Management's Response

- 4.1 As discussed in the preceding sections, the first half of the ADF-12 period has seen significant achievements in demonstrating results of ADF operations and delivering ADF-12 commitments. These achievements notwithstanding, a number of challenges remain to be addressed to enhance the Fund's transformational role and improve the effectiveness of its development assistance. At the global level, continued and concerted efforts by the Bank Group, its clients and all development partners are needed to translate operational achievements into broad-based and sustainable development at country and regional levels.
- 4.2 At the operational and institutional levels, some of the key challenges Management is currently addressing can be summarized under two broad categories; (i) the need to strengthen clients' capacity for project preparation and project implementation, especially in the infrastructure sector; and (ii) the need to enhance the Fund's financial and programmatic support to fragile states, regional operations, private sector development and human capital development.

Strengthening Clients' Capacity for Project Preparation and Implementation

- 4.3 Inadequate project preparation has at times impeded timely processing and implementation of infrastructure operations, for both national and multinational projects. Requests submitted by clients do not always fully meet the technical and legal conditions – especially as regards additional technical studies and environmental and social safeguards – for expeditious processing, approval and effectiveness of loans/grants. Two of the most common challenges in this regard relate to clients' limited capacity to finance the cost of resettlement of affected populations, and the Bank Group's strict approach to the formulation of conditions precedent to disbursement, which is currently to withhold disbursement until project-affected persons are fully compensated. This has meant that Fund resources are not available for experts to undertake detailed design work to determine the full social impact of a proposed project, forcing the client to identify other sources of funding for such work and incurring further delays in implementing the project.
- Management has put in place several measures to address project preparation and implementation challenges, including: (i) providing for advance contracting, whereby the executing agency can start the procurement process before the loan becomes effective;⁵⁷ (ii) contributing towards resettlement costs, where it is considered to be cost effective, so as to reduce the financial burden on the clients and ensure that projects are not unduly delayed; (iii) moving away from linking disbursement to policy conditionalities, in line with international good practice, and using instead "dated covenants" and dialogue to influence reforms; and (iv) intensifying policy dialogue and project supervision, especially through enhanced country presence, and close monitoring of the Bank Group's portfolio performance.
 - Management is also updating the operational guidelines of the 2000 ADF Project Preparation Facility, which has thus far been underused, to enhance its responsiveness to the needs of ADF countries. To sustain the Fund's current momentum of support for regional operations, it is imperative that a strong pipeline of projects is maintained by investing in preparation efforts through the NEPAD Infrastructure Project Preparation Facility, which guarantees adequate project preparation to leverage much-needed additional funds from private investors.
- 4.4 In addition to project preparation, championing infrastructure development through complex PPPs in low-income and/or fragile countries has its own challenges, given the weak regulatory and institutional frameworks and capacities in most of these countries. At the same time there is a recognition that the Fund should actively participate in such operations as part of its effort to promote private sector engagement in ADF countries.
- ADF-supported operations routinely incorporate an assessment of implementation capacities of executing agencies, and provide support, as needed, for technical assistance and support for institutional capacity building. Notwithstanding, given the serious

⁵⁷ Based on the Bank Group's experience that project implementation delays can be reduced by as much as six months without any adverse impacts, advance contracting is used wherever possible.

limitations in many countries, additional measures may include requiring clients to explicitly budget resources for a specific set of activities that have been identified as critical for removing bottlenecks. This may include technical design, procurement, complex financing structures, etc.

Strengthening ADF's Financial and Programmatic Support

- 4.5 **Fragile States:** A number of issues and challenges have emerged in the course of implementing the Bank Group's strategy for assisting fragile states over the past three years. Drawing from the report of the independent evaluation, a review by an internal task force, and implementation experience thus far, Management is currently taking a closer look at the following issues with a view to updating the Bank Group's strategic and operational frameworks for engaging in fragile states:
 - (i) Revisiting the concept or definition of fragility, and the eligibility criteria for FSF support and resource-allocation modalities within the FSF, including exit strategies;
 - (ii) Leveraging better partnerships to engage more effectively in areas where the Bank Group has limited or no mandate (e.g. peace-building);
 - (iii) Improving country program design through more focused fragility assessments; and re-evaluating the strategic role of Pillar III operations and improving their management; and
 - (iv) Strengthening the institutional arrangements and the role of the Fragile States Unit; aligning resources and authorities more closely with responsibilities and accountabilities; and strengthening operational capacities through knowledge work and trainings.
- 4.6 Management has established a Bank-wide technical working group, which will be supported by, a high-level advisory panel, to look into these issues and recommend a way forward on the broader strategic directions and operational approaches for the Bank Group's engagement in fragile states beyond the ADF-12 period. Proposed adjustments to the 2008 *Bank Group's Strategy for Enhanced Engagement in Fragile States* will be brought to the attention of ADF Deputies for their review and consideration during the ADF-13 replenishment negotiations.
- 4.7 **Regional Operations:** Though the ADF has strongly contributed to advancing the continent's regional integration agenda, demand for resources from the RO envelop has been increasing rapidly and is expected to increase further following the endorsement by African Heads of State and Government, in January 2012, of the Programme for Infrastructure Development in Africa Priority Action Plan. The Action Plan outlines 51 critical infrastructure programs and projects that require capital investments of USD 7.5 billion to realize the continent's full growth potential. Future efforts could also be envisaged in broadening the base of interventions by increasing the focus on investments in soft areas, such as capacity building, and policy and regulatory frameworks that facilitate the trade of goods and services, in parallel with hard infrastructure investments. Country commitment and ownership, implementation and governance arrangements, as well as a favourable policy environment are critical for improving the performance of ROs.
- 4.8 Following the findings of the independent evaluation, Management has identified five key areas for further action and potential adjustment to the Bank Group's regional integration strategic and operational frameworks:
 - (i) Clarifying the strategic focus of the Bank's approach to regional integration by (i) developing a set of definitions of activities in support of regional integration including multinational operations, regional operations, national operations with a regional integration impact, and regional public goods; (ii) strengthening Bank's support to address the soft constraints of regional integration focusing on the areas where the Bank has a comparative advantage and the skills; and (iii) clarifying the role and implementation modalities of private sector operations in fostering regional integration.
 - (ii) Ensuring a mechanism for systematic feedback and learning by putting in place a process for regularly reviewing and disseminating operational experiences and lessons learnt in promoting regional integration.

- (iii) Reviewing the Bank's current regional integration operational and strategic frameworks with the view to (i) identifying emerging issues to be considered as part of the future approach to regional integration; (ii) clarifying the strategic approach to regional integration in the Bank Group Long-Term Strategy; and (iii) developing a new regional integration strategy for the Bank which, among other things, will align resources and skill set of the Regional Integration Department (ONRI).
 - (iv) Taking stock of the roles, responsibilities and division of labour between ONRI, sector and regional departments, Field Offices and Regional Resource Centers. In this regard, ONRI would focus at the strategic level and support other departments in identifying appropriate interventions and work together with focal points in sector and regional departments, including Field Offices and Regional Resource Centres.
 - (v) Reviewing the Bank's current tools and review process (e.g. quality at entry and Readiness Review tools and the format of project appraisal reports for multinational operations etc.) with the view to aligning with the specificities of multinational operations.
- 4.9 Private Sector Development: As the Bank Group expands its private sector operations in ADF-countries in line the ADF-12 and GCI VI commitments, some challenges have emerged that Management is trying to address. The first has to do with the limitation of the overall resource envelop available for private sector operations in high-risk countries. In line with a prudent financial risk-management approach, the ADB's risk-capital allocation per country uses the sovereign risk rating. In 2012 there were 16 countries rated as high-risk (5), most of those being fragile states with annual lending limits of UA 4.75 million, on average. This affects the level of non-sovereign investments in fragile states, particularly in capital-intensive sectors and sectors that entail some sovereign risk exposure, such as the infrastructure sector.
- 4.10 Second, there is the challenge of operating under clients' different planning and investment cycles, especially with regards to processing sovereign and non-sovereign operations jointly. ADF operations are usually planned and prioritized far in advance of a formal request being received, including during CSP preparations. On the other hand, private sector transactions originate in response to a request from private sector clients with shorter investment-decision horizons, often once a bid or concession has been awarded. While many ADF countries are starting to consider PPP arrangements, few are aware of the possibility of accessing sovereign-term financing from the Bank for such investments, hence they do not typically include PPP projects in the pipeline of operations for which they seek Bank Group financing. This lack of awareness and early planning, coupled with the fact that ADF resources are allocated on a yearly basis, makes it challenging for the Bank Group and its clients to design and process PPP (or similar) operations within a short timeframe and with limited resources. Management is taking a more proactive approach to identifying and preparing projects within a longer time horizon by strengthening sector and policy dialogue with sovereign clients, among others.
- 4.11 Human Capital Development: The ADF-12's limited mandate and resources for human capital development have limited its capacity to respond fully to clients' requests to support reforms in higher education systems that are needed to address the current challenges of mismatch between the education sector and labor markets in RMCs. Moreover, the African governance agenda in the coming decade will be about value for money: making use of transparent evidence-based budgeting and result-based financing, promoting innovative social safety nets, and optimizing the opportunities provided by rapidly changing technologies, such as e-health. With 1 billion people in Africa today, and 2.3 billion people projected for 2050, the continent's greatest asset (and potential risk) in the coming decades will be its reservoir of human capital. Africa is the youngest region in the world, and will have the largest workforce in the world by 2040. Given that education, health and social protection are inextricably linked with economic growth and poverty reduction, continuing on the current path of strategically focused and operationally integrated approaches will allow the Fund to respond to the demands of its RMCs.

5. Conclusion and Recommendations

- 5.1 From the foregoing, it is evident that ADF is making meaningful contributions to the development objectives of the 41 low-income African countries benefiting from its assistance. It has demonstrated responsiveness to the diverse and changing needs of its clients while maintaining the strategic and operational focus, and results orientation, as agreed under the ADF-12 Replenishment. The Fund's operational effectiveness and the Bank Group's overall performance as Africa's "Preferred Partner" continue to improve under ADF-12. Building on the operational and institutional achievements of ADF-11, the Fund is consolidating and deepening gains, promoting innovations by rolling out new instruments and operational frameworks, and improving the design and delivery of operations based on implementation experiences and regular evaluations.
- 5.2 The Fund's assistance to fragile states and regional integration is producing results and should be reinforced going forward. Lessons from evaluations and other reviews are providing useful evidence for potential adjustments to the Bank Group's strategic and operational engagement in these two areas, the details of which will be brought to the attention of Deputies during the ADF-13 replenishment discussions.
- 5.3 Deputies are invited to take note of this report and provide their views and guidance on the progress achieved, and challenges encountered, in the implementation of operational priorities under ADF-12.

Annex I: The ADF Regional Operations Selection and Prioritization Framework

In 2011, Management introduced an innovative mechanism for selecting and prioritizing regional operations (ROs) and regional public goods (RPGs)⁵⁸ to be financed by the ADF with a view to ensuring full strategic alignment of projects with the Bank Group and countries' objectives, high quality-at-entry and potential for results, and strong development impact.

ROs are selected and prioritized following a two-step process that is built around country and project-specific indicators (Figure I-1). RPGs are selected and prioritized under a separate three-step filtering process for consideration by the Operations Committee, subject to resource availability, on grant funding and cost-sharing exemption (Figure I-2).

Figure I-1: Two-step selection and prioritization processes

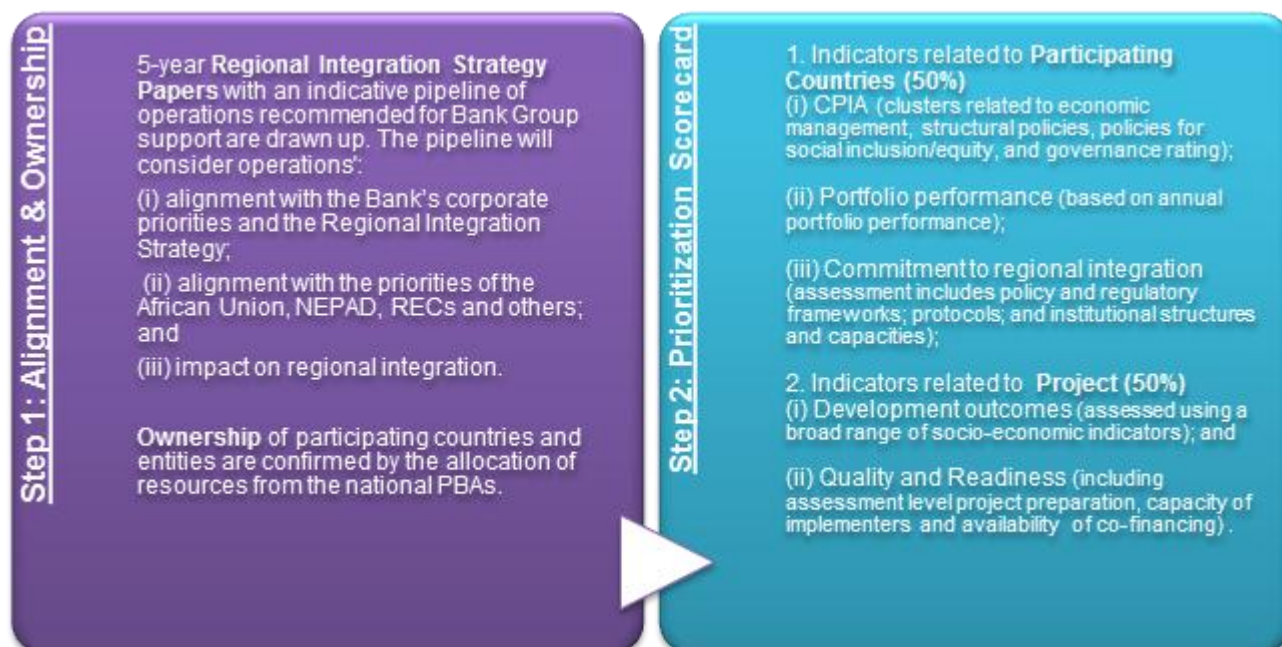


Figure I-2: Selection and prioritization framework for Regional Public Goods



⁵⁸ See *Regional Operations Selection and Prioritization Framework*, ADB/BD/WP/2011/01 – ADF/BD/WP/2011/01 discussed by the Board of Directors Committee on Operations and Development Effectiveness in February 2011.

Feedback from early implementation

Under ADF-12, UA 1,163 million has been set aside for ROs. Combined with resources from national allocations, operations in support of regional integration are expected to represent more than 30 percent (UA 1,761 million) of ADF resources available for allocation for the period 2011 to 2013.

A total of 36 projects were submitted by sector departments for the 2011 and 2012 selection and prioritization exercises, with a total value of UA 2,175 billion, nearly twice the amount of resources available.

Following the filtering exercise, 24 projects (14 ROs and 10 RPGs) valued at UA 1,115 million were selected (Table I-3). All of the projects that were selected were rated “very good” (71 percent) or “good” (29 percent), which indicates that the selection and prioritization tool was useful in directing ADF funds towards the most strategic operations, with a higher probability of development impact. This is also true for RPGs. Moreover, the Readiness Review filter showed that all 12 projects that had gone through the RR assessment at concept stage were found to be “ready for appraisal” (25 percent of which representing a best-practice case), while at the appraisal stage, nine (66 percent) were rated as “satisfactory or highly satisfactory” and three (34 percent) were rated as “moderately satisfactory”.

Table I-3: Operations Selected and Prioritized for RO Financing in 2011 and 2012

SELECTED REGIONAL OPERATIONS, 2011 & 2012				SELECTED REGIONAL PUBLIC GOODS, 2011 & 2012			
Project Name & Sector	Countries Participating	Score	Rating	Project Name	Region	Filtering Score	Ranking Dev. Effect
Cote D'Ivoire, Liberia, Sierra Leone Guinea Interconnection - Energy	Cote D'Ivoire, Liberia, Sierra Leone & Guinea	22	V. GOOD	Statistical Capacity Building Program	All	7	5
Central Africa Backbone - ITC	Cameroun, Chad & CAR	22	V. GOOD	Pan African University	All	7	4
Chad-Cameroon interconnection - Energy	Chad & Cameroon	21	V. GOOD	Capacity Building in Infrastructure Programming for AUC/NPCA	All	7	4
Ethiopia and Kenya Interconnection Project - Energy	Ethiopia & Kenya	21	V. GOOD	CGIAR Support to Agricultural Research for Development on Strategic Commodities (SARD-SC)	All	7	3
Arusha-Holili/Taveta-Voi Road Development - Transport	Tanzania & Kenya	21	V. GOOD	EAC Payment System Development Project	East	7	3
Mombasa-Nairobi-Addis Ababa Corridor Phase III - Transport	Ethiopia & Kenya	20	V. GOOD	African Virtual University, Phase II	East	7	3
Kazungula Bridge - Transport	Zambia & Botswana	20	V. GOOD	Support for the rationalization of RECs in Central Africa and Capacity Building for ECCAS	Central	7	3
CESUL Mozambique Backbone Transmission Line - Energy	Mozambique	20	V. GOOD	Capacity Building for Tripartite (COMESA, SADC and EAC)	All	7	3
Boali, Central African Rep.- Dem. Rep.Congo Interconnection - Energy	CAR & DRC	19	V. GOOD	Mainstreaming Managing for Development Results in RMCs	All	6	3
Lomé-Ouagadougou Corridor - Transport	Togo & Burkina Faso	18	GOOD	Horn of Africa Drought Resilience & Sustainable Livelihoods (IGAD Capacity Building)	East	6	4
Trans Gambia River Bridge - Transport	Gambia & Senegal	18	GOOD				
Burundi-Rwanda Road Project- Transport	Burundi & Rwanda	18	GOOD				
Abidjan-Lagos Corridor - Transport	Bénin & Togo	15	GOOD				
Horn of Africa Drought Resilience & Sustainable Livelihoods - Agriculture	Djibouti, Eritrea, Ethiopia; Kenya & Uganda	15	GOOD				

Notes: The ratings reflect the score at the time of prioritization only. Afterwards, projects undergo the normal preparation and appraisal cycle before their presentation to the Board for approval.

Looking ahead

Lessons were drawn from the two-year pilot phase and, under the Board's guidance, a comprehensive framework will be established to prioritize operations to be approved under ADF-13.

Annex II: Update on Implementation of the Partial Risk Guarantee Instrument

Introduction

The African Development Fund (ADF)'s Partial Risk Guarantee (PRG) instrument was introduced in ADF-12 on a pilot basis to catalyze private investments in low-income regional member countries. The PRG instrument is intended to insure private lenders against risks related to the failure of a government- or a state-owned entity to honor its contractual undertakings. Such risks include political *force majeure*, currency inconvertibility, regulatory risks (adverse changes in law) and various forms of breach of contract.

Implementation progress

The instrument was rolled out in 2011 following approval by the Board of Directors of the ADF PRG Strategic Framework and Operational Guidelines. In line with the Strategic Framework's implementation arrangements, key activities undertaken during the reporting period have included:

- The constitution of the Bank's ADF PRG Energy Task Force for the identification, sensitization and support for implementation of the ADF PRG projects;
- Internal and external marketing supported by dedicated promotional material and standardized legal documentation to support project-level discussions with prospective clients;
- Internal training sessions with financial products seminars, particularly targeting staff in the Private Sector Operations Department, Energy Department and in Field Offices;
- Preparation of a critical path document highlighting the key steps for the implementation of the ADF PRG, which will also serve as a guide to all task managers and clients;
 - The establishment of the Initiative for Risk Mitigation in Africa⁵⁹, followed by internal and external product sensitization and training, and review of new private sector project proposals to assess the need for and advise on credit-enhancement options, including PRGs. The International Monetary Fund has leveraged the Organisation for Economic Co-operation and Development's (OECD) public-private partnership capacity building program to ensure adequate coverage of PRGs and other risk-mitigation instruments (a "pilot" seminar was held in Zambia in March 2012);
 - External outreach and pipeline development in Nigeria, Chad, Central African Republic, Burkina Faso and Kenya as well as private project developers; and
 - The establishment of working linkages with the New Partnership for Africa's Development Infrastructure Project Preparation Facility and the Infrastructure Consortium for Africa.

Transaction experience to date and outlook (pipeline)

At the inception stage, an indicative project pipeline was developed to inform the instrument's design. Of the six projects considered, one has materialized without the need for a PRG in line with the last-resort nature of the instrument (*Dakar Airport Project* – Senegal); one project is still under discussion (the *Lake Turkana Wind Power Project* – Kenya); one project fell off the pipeline due to alternative (non-ADF) financing (*Gibe III Hydropower Project* – Ethiopia); one project has been postponed due to sanctions applicable to the *de facto* government status of the country (Madagascar); one project is being pursued with alternative ADB/ADF blend financing; and one is in early project-preparation stage (*Cenpower* – Ghana). Table II-1 below provides an overview of the current pipeline of projects and programs where deployment of the PRG is being actively considered.

⁵⁹ One of its main objectives is to encourage the effective use of the Bank's risk-mitigation products, including guarantee products, as a catalyst for mobilizing private investment for projects in Africa.

Table II-1: Status of Current Pipeline

Country	Status
Kenya	The Bank has engaged the Kenyan government in the potential use of the ADF PRG for upcoming Independent Power Producers (IPPs). The Bank has commenced discussions for the provision of a PRG, as a co-guarantor with the World Bank, for the Lake Turkana Wind project. Furthermore, the Bank has engaged the Geothermal Development Company on the potential provision of an ADF PRG to cover four projects totalling 400MW including steam supply agreements. There are on-going discussions with the company, and the critical path document will be shared with them as a guide for implementation and determination of an agreed work program
Nigeria	The Bank has concluded an identification mission in Nigeria on the potential use of the ADF PRG. High level consultations were held with the Nigeria Bulk Electricity Trading Company, Bureau For Public Enterprises and Ministries of Power and Finance. The stakeholder agencies have shown keen interest in the PRG and an Aide Memoire on discussions and next steps has been signed. The Task Force is preparing a critical path document as agreed with the agencies, and staff nominations will be made from each agency to form an implementation committee for the ADF PRG in Nigeria. The Nigeria Bulk Electricity Trading Company will nominate potential IPPs through the Ministry of Finance which will make a formal request to the Bank for a PRG. The team also met with IPPs to ascertain their requirements and perceived risks in the sector. The Task Force will continue to have parallel discussions with the World Bank on the structure for a proposed sector wide PRG syndication. The implementation of the ADF PRG would catalyse the on-going power sector privatization in Nigeria.
Central African Republic	The Eau Pure water Public Private Partnership project presents a good case for credit enhancement for the water utility. Early discussions with the government have highlighted the challenge of mobilizing an ADF PRG due to the country's limited ADF performance-based allocation and competing priorities. Without credit enhancement that is affordable, the project is unlikely to be feasible. Opportunities to leverage the FSF Pillar I allocation for a PRG are currently being investigated.
Mali	The Task Force is also monitoring PRG options for liquidity enhancements associated with a solar powered project with a total capacity of 112.5MW.
Burkina Faso	The Bank is looking into the provision of a PRG as a credit-enhancement package to the <i>Windiga Solar Power Plant</i> to backstop off-takers, given the risk perception of the utility.

Strengthening the design and delivery of PRGs through partnerships and co-financing

To smooth the learning curve associated with the deployment of the new instrument, the Bank Group has reached out to sister institutions that have experience with similar guarantee products, particularly the World Bank Group, the Asian Development Bank and the OECD. An emerging lesson is that these products take time to come to fruition. The World Bank has implemented 15 transactions in the last seven years, while the Asian Development Bank has implemented 15 over a period of 11 years.

A number of co-guarantee opportunities are being pursued with the World Bank, including an energy-sector program for integrated natural gas and IPP transactions in Ghana and the Rufiji Hydropower Project (USD 200 million) in Tanzania.

Emerging lessons from operationalizing the ADF PRG instrument

Since the rollout of the ADF PRG Framework and Guidelines, a number of lessons have emerged that will guide implementation approaches going forward:

- *Product rollout:* More needs to be done to market the product internally and externally in order to broaden the understanding of how the product works. Deepening the knowledge and expertise of Bank staff would allow for timely engagement with government counterparts to ensure integration of the PRG in the country's indicative operational program.
- *Programming and resource allocation:* Discussions with governments need to take place early on in the CSP process so that governments can allocate resources from their performance-based allocations early on towards the PRG. This exercise would be particularly useful for countries with small Performance-Based Allocation (PBA) allocations and fragile states.

- *Double counting of contingent liabilities:* In spite of the International Monetary Fund stance on the matter, internal and external parties view PRGs as additional contingent liabilities, which should not be envisaged on grounds of adherence with the Debt Sustainability Framework. This will be addressed specifically in all outreach activities.
- *Partnering with World Bank Group:* Co-guaranteeing opportunities with the World Bank are being explored and will be tested through a pilot project, in close collaboration with concerned governments. Moreover, the World Bank is undertaking policy revisions on their various guarantee instruments. At this juncture, one of the proposals the World Bank is considering is to introduce partial credit and policy-based guarantees to the International Development Association countries, based on new eligibility criteria; and to include a new requirement that the PRG risk-coverage assessment be based on efficient allocation of risks between public and private parties, in accordance with standard practices for project finance and as appropriate for specific project circumstances. This new proposal would bring greater focus on whether a risk to be covered by the PRG is one that the government is best able to control, manage or bear. These developments are being closely monitored for emerging lessons and applicability to the Fund's operations.

The way forward

The Fund will continue to conduct product seminars and presentations in order to increase awareness and understanding of the instrument. External outreach will be undertaken in collaboration with other organisations (e.g. OECD and New Partnership for Africa's Development), and Bank staff will continue to work closely with the World Bank to enhance strategic co-ordination and co-financing at country level.

For countries with small PBA allocations, particularly fragile states, where the product would have the most significant impact, options for increasing resources to PRGs are being explored. To this end, potential adjustments to the current resource allocation and PRG financing identified by Management may be proposed to ADF Deputies during the ADF-13 replenishment discussions.

Annex III: Implementation of the Bank Group's Climate Change Action Plan

Introduction

The African Development Bank Group's Climate Change Action Plan (CCAP) 2011-2015⁶⁰ aims to support regional member countries in their efforts to adapt to the effects of climate change and shift towards a low-carbon development path. The CCAP focuses on infrastructure development and regional operations. The Action Plan is designed around three pillars: (i) promoting low-carbon development; (ii) supporting climate-resilient development; and (iii) facilitating a funding platform to strengthen the capacity of African countries to respond to climate change. The CCAP also includes advisory services, support to policy reform, knowledge generation and competency building that cut across all programs. In the process of developing the CCAP, the Bank Group undertook consultations to identify challenges and opportunities for effective implementation of the CCAP; promoted the integration of climate change considerations across all Bank Group operations; and put in place the requisite institutional arrangements to deliver on the CCAP commitments.

Highlights of implementation progress

I. Promoting low-carbon development: Table III-1 below provides a summary of progress against the CCAP targets 2011-2015 for initiating and funding clean energy projects.

Table III-1: Progress in Meeting CCAP 2011-2015 Targets for Clean Energy

Target 1: Initiation of up to 5GW of clean energy projects		
	2011 (MW)	2012, estimated (MW)
	630	1,900
Target 2: Fund up to UA 2 billion of Renewable Energy and Energy Efficiency Projects		
Source	2011 (USD Million)	2012, estimated (USD Million)
ADB / ADF	430.0	500.0
Climate Finance	125.0	225.0
Total	555.0	725.0

II. Supporting climate-resilient development: Development of a new sector-specific climate change screening tool and guidance that provides a simplified approach to assessing development projects for potential sensitivities to climate change. Further work is being done to link the tool to the overall Bank Group's initiative to develop an Integrated Safeguards System.⁶¹ The implementation of the CCAP calls for integrating and applying new systems, tools and approaches into the Bank Group's operations. These actions are supported by non-lending activities, including advisory services, policy dialogue, assessment of policy, legal, and regulatory and enabling frameworks, provision of training activities for country-level analyses, and facilitation of access to innovative financing.

The Bank Group's *Climate Safeguards System* (CSS) was initiated in 2010. The purpose of the CSS is to mainstream climate screening and adaptation in Bank Group projects as defined in the 2009 Bank Group Climate Risk Management and Adaptation Strategy. Specifically, the CSS will enable the Bank to address climate change risks in key climate-sensitive sectors, such as agriculture, infrastructure, water and energy, at an early stage in the project cycle, a more cost-effective approach than redesigning projects at appraisal stage or retrofitting projects after implementation. The CSS package includes an operational guidance manual, screening tools and training program for task managers.

The CSS is composed of four components: (i) *Climate Screening* which assesses the vulnerability of a project concept to climate change and classifies the project for climate-vulnerability, ranging from 1 (most vulnerable) to 3 (least vulnerable); (ii) *Adaptation Review and Evaluation*, which enables the user to identify adaptation measures for a project depending on its classification; (iii) *Country Adaptation Factsheets*, which are produced on demand and provide up-to-date information on climate

⁶⁰ The CCAP was presented at an informal Board meeting in November 2011, which was followed by extensive internal consultations and revisions. Board approval of the final document is expected in Q3/4 2012.

⁶¹ See also the ADF-12 discussion paper *Institutional Effectiveness: Improving Delivery Capacity in a Changing Context*.

projections and country indicators from various sources; and (iv) *CSS Information Base*, which is a portal that gives direct access to the climate projections developed for African countries by the University of Cape Town.

Following consultations in 2010 with task managers in relevant sectors and after the development of screening and adaptation manuals, an automated CSS was developed to provide a practical and easy-to-use online tool that will facilitate implementation of climate change actions in Bank Group operations. A series of training workshops were held, including in field offices, to familiarize Bank staff with the tool and solicit feedback for improvement. Further planned actions to complete the rollout of the CSS include: transferring the system onto a convenient Bank web platform and linking it to the Bank's operations system (SAP); linking CSS to the Bank Group's Integrated Safeguards System currently underway; supporting the Regional Member Countries (RMCs) use the CSS for their on-going and future projects; and enhancing partnerships with sister organizations to harmonize approaches towards an integrated system.

CSS materials can be accessed online at <http://72.26.119.91:8080/GCAP-CSS/afdbhomepage.html>

III. Advisory services, knowledge generation, and capacity building: Trainings on climate change are routinely conducted for Bank staff and representatives of RMCs. Some examples of Bank-led development of knowledge products to enhance understanding of climate change issues within the Bank and in RMCs include the *Report of the Advisory Group on Climate Change Finance* and the *Joint Multilateral Development Bank Climate Financing Adaptation Tracking Methodology*, which suggests a common approach for considering and accounting for adaptation finance; country studies on clean energy development (Egypt) and renewable energy (Mali); and briefs and studies on climate change vulnerability and the cost of adaptation in Africa.

Box III-2: The Bank Group's Role in Supporting Nationally Appropriate Mitigation Actions

In Africa, the development of Nationally Appropriate Mitigation Actions (NAMAs) offers a unique opportunity to realize sustainable development objectives while contributing to the global efforts to combat climate change and benefit from technological and financial support. The Bank Group is taking a leading role in supporting regional member countries as they develop proposals and reports within the NAMAs framework that could lead to tangible mitigation and development outcomes.

Following consultation meetings with African negotiators on the needs of the countries to prepare NAMAs, a number of activities have been initiated including: support to African countries to develop their national reports on policies to mitigate greenhouse gas emissions and NAMA's framework proposals to be submitted to the UNFCCC; strengthening regional member countries' position to attract financial, technological and capacity building support through the elaboration of five case studies for NAMA (in the energy, waste, transportation, forestry and agriculture sectors) and in the five sub-regions.

Lessons learned from these five case studies will help build guidelines for the NAMA development process that could be used by all regional member countries. In addition, the Bank Group works in close collaboration and partnership with other specialized institutions to avoid duplication of effort and maximize support to regional member countries.

IV. Facilitating a funding platform: Promoting low-carbon development pathways that strengthen RMCs' resilience to climate variability entails additional financing requirements. The implementation of the CCAP therefore requires the development of a financing platform that will seek to increase RMCs' access to available resources within the Bank Group and tap into other facilities dedicated to climate change financing.⁶² Accordingly, the Bank is scaling-up its efforts to mobilize such resources, building on its existing work with global funds, such as the CIF and Global Environment Facility (GEF). For example, during 2011 and the first quarter of 2012, the Bank Group's technical support and guidance has helped seven countries complete CIF investment plans and have them approved: Burkina Faso, the Democratic Republic of Congo, Ethiopia, Kenya, Mali, Mozambique and Zambia. Work is on-going in Ghana, Liberia and Tanzania. Furthermore, under a co-financing arrangement with GEF, four projects that have regional reach are being developed. It is expected that the Bank's GEF climate

⁶² According to the G-20 Multilateral Development Banks paper, *Mobilizing Climate Finance* (October 2011), the term climate financing "broadly refers to resources that catalyze low-carbon and climate-resilient development. It covers the costs and risks of climate action, supports an enabling environment and capacity for adaptation and mitigation, and encourages R&D and deployment of new technologies".

change portfolio will grow through diversification and engagement of various departments. The tables below provide detailed information on the status of the Bank Group's efforts in mobilizing climate financing between January 2011 and June 2012.

Table III-3: Bank Group Co-Financed Investment Plans for Climate Investment Funds⁶³

(USD Million)

Investment Plan (Endorsed by the CIF Committee)	CIF Allocation	Bank's CIF Allocation	Estimated Bank Co-financing
SREP Ethiopia	50.0	22.0	70.0
SREP Kenya	50.0	25.0	124.0
SREP Mali	40.0	22.0	40.0
FIP Burkina Faso	30.0	12.0	7.0
FIP DR Congo	60.0	21.0	14.0
PPCR Mozambique	86.0	31.0	25.0
PPCR Zambia	86.0	37.0	-
Total	402.0	170.0	280.0

Table III-4: Approved Bank Group Projects with Climate Investment Funds Co-financing

(USD Million)

Project/Program	Investment Plan	Bank's CIF Amount	Bank's Co-Financing	Total Project Cost
Menengai Geothermal Project	SREP Kenya	25.0	124.0	503.0
Ouarzazate Project	CTF MENA	100.0	240.0	1,600.0
ONEE Wind Energy Program	CTF Morocco	125.0	512.0	2,166.0
ESKOM Renewable Support Program	CTF South Africa	100.0	265.0	1,229.0
Total		350.0	1,141.0	5,498.0

Table III-5: Bank Group Co-Financing with Global Environment Facility

(USD Million)

Project/Program	GEF Financing	Estimated Bank Co-financing
Lake Chad Basin Regional Program for the Conservation and Sustainable Use of Natural Resources and Energy Efficiency	20.5	146.5
Mano River Union Ecosystem Conservation International Water Resources Management Project	6.3	22.7
Private Sector Platform for Renewable Energy Development	20.0	70.0
African Climate Technology Finance Center and Network	14.3	-
Total	61.1	239.2

Notes: In addition to the above, in 2011 the Bank approved USD 21.7 million for the Climate Adaptation for Rural Livelihoods and Agriculture project, following an earlier grant of USD 3 million from the Least Developed Countries Fund.

In addition to global funds, Bank Group-hosted facilities are being used to mobilize funds from other climate/environment financing sources. These include: (i) the Congo Basin Forest Fund, which finances activities promoting the equitable and sustainable use, conservation and management of the Congo Basin forests and ecosystems; (ii) the Africa Water Facility, which assists RMCs in improving the Water and Sanitation sector; (iii) the Sustainable Energy Fund for Africa, which provides resources for technical assistance for project preparation and equity financing of renewable energy projects; (iv) the ClimDev-Africa programme, which provides climate-related information for decision-making and

⁶³ Comprised of the Clean Technology Fund (CTF), Scaling-up Renewable Program (SREP), Forest Investment Program (FIP) and the Pilot Program for Climate Resilience (PPCR).

funding for pre-investment activities;⁶⁴ and (v) the Africa Carbon Support Programme, which is geared toward assisting Bank clients in RMCs in accessing carbon finance in order to ensure the commercial viability of their investments. The Bank Group is increasingly looking into opportunities offered through public-private partnerships and private sector engagement. Nonetheless, these funding resources remain insufficient to fully implement the CCAP in the near term.

Monitoring and evaluating the implementation of the CCAP

A Framework for Monitoring and Evaluation of the CCAP is being developed to measure progress in actions being taken in terms of adaptation and low-carbon development. The Framework contains measurable indicators and targets for assessing and tracking the impact of the Bank Group's actions. This results-based framework will also include a system for tracking possible additional operation costs when low-carbon development and adaptation aspects are added, and the "co-benefits" that actions in climate-sensitive sectors can generate for reducing vulnerability. Collaboration will be sought with other MDBs and UN partners to produce harmonized systems to the greatest extent possible.

Conclusion

The Bank Group is addressing climate change as a priority for Africa and is making progress in implementing its CCAP. These efforts need to be implemented at scale, which will require considerable financing. The Bank Group will continue to work alongside development partners and leverage financing opportunities.

⁶⁴ While ClimDev is technically not operational, as the minimum Fund size has not been reached, the Bank has been funding projects along the objectives of ClimDev. About USD 30 million has been provided during ADF-11 to four African climate-information centers.

Annex IV: Examples of Program-Based Operations Under ADF-12

Box IV-1: Delivering Timely, Flexible and Context-Differentiated Assistance

Cote d'Ivoire – Emergency Program to Restore Basic Social and Administrative Services

In the aftermath of the political unrest that followed the Cote d'Ivoire's presidential election in 2010, the Bank acted swiftly to extend emergency support to the country (UA 100.5 million). The Bank Group was among the first international organizations to visit the country, conduct a rapid needs-assessment, and design a package of assistance that enabled the government to quickly resume the delivery of basic services and state functions.

Objectives: (i) Promote access to basic social and administrative services by rehabilitating social services and water supply and sanitation networks, and provide capacity building activities for government services responsible for economic governance; and (ii) promote social cohesion and reconciliation and thereby restore stability, which is a precondition for inclusive growth.

Expected outcomes: Restore the population's access to health centers, schools, and social welfare centers; restore access to drinking water and sanitation to 80 percent of the population; strengthen the operations of targeted public departments; government to implement dialogue mechanisms, including a Dialogue, Truth and Reconciliation Commission; and consolidation of peace and a return to order and security.

The experience underscored the Bank Group's ability to respond rapidly and flexibly by leveraging its financial resources, making use of quick-disbursing instruments and its deep knowledge of the context and its leadership on the ground.

Tanzania – Governance and Economic Competitiveness Support Program

Tanzania is one of the most politically stable countries in Africa. The country has achieved notable growth rates as a non-oil-producing sub-Saharan country during the past decade. However, the country's fiscal position moved from a surplus in 2008 to deficits in the subsequent three years, owing largely to actual revenues coming in below budget targets. The low levels of domestic revenue have resulted in about 70 percent of development being financed by external resources. This has adversely affected GDP growth, which is projected to decline from 6.9 percent in 2010 to 6.0 percent in 2011. To support structural reforms in public administration, the ADF Board of Directors approved UA 100.0 million in 2011 to finance the *Governance and Economic Competitiveness Support Program*.

Objective: Contribute to increased competitiveness and accelerated growth by enhancing the business-enabling environment through improved governance in public-finance administration and enhanced tax revenue generation.

Expected outcomes: Enhanced budget accountability and transparency; improved budget oversight; ratio of tax revenues as a percentage of GDP increases from 16.3 percent in 2010 to at least 18.0 percent by 2014; enhanced mineral resources management – the difference between payments made by mining companies and the revenues received by the Government of Tanzania decreases from 42 percent in 2010 to less than 10 percent in 2012; and improved business-enabling environment and investment climate – total electricity installed capacity increases from 1,077MW in 2011 to at least 1,247MW by 2014.

Ethiopia – Protection of Basic Services III Program

Approved in July 2012 (UA 166 million), the Protection of Basic Services III Program aims to reduce poverty and improve the standard of living of Ethiopians. The operation has four components: supporting decentralized delivery of quality basic services; deepening public financial management; improving financial transparency and social accountability; and strengthening monitoring and evaluation systems of sector ministries.

Expected outcomes: As a result of expanded access to quality health and education services, the project is expected to contribute to a drop in the maternal mortality rate from 470 out of 100,000 births to 350 out of 100,000 births between 2010-11 to 2013-14 and an increase in primary school completion rates from 49 percent to 62 percent during the same period.

The operation provides a good platform for the Bank Group's role in policy dialogue and donor coordination, especially in light of the strong participation by several other Development Partners collectively financing 41.4 percent of the total cost of the program (UA 2.3 billion). The ADF's contribution of UA 166 million accounts for 7.4 percent, while the Government of Ethiopia is financing 51.1 percent of the total cost.

Annex V: Early Engagement in Countries Emerging from Conflict or Crisis

The Bank Group's strategy for enhanced engagement in fragile states and the resources of the Fragile States Facility (FSF) have enabled the Fund to engage early and more effectively with regional member countries emerging from conflict or crisis. The resources and possibility for flexible engagement under Pillar III of the FSF have been valuable in this context, especially in countries where the Bank Group has limited or no other instruments for operational engagement as highlighted in the examples below.

Somalia: The Bank Group discontinued its operations in Somalia in early 1991 following outbreak of the civil war, and its engagement has been very limited since. Prospects for deeper engagement have somewhat improved in recent years with the relatively improved conditions on the ground. Nonetheless Somalia has remained ineligible for regular Bank support given the unsettled country conditions and continuation of arrears accumulation. However, with Pillar III resources, and in collaboration with other donors and institutions, the Bank has been able to engage and provide limited support for capacity building and the development of knowledge that can feed into the design of a credible plan for emergence from crisis and full resumption of support from the Bank Group. Early engagement and dialogue began in 2009, when the Bank through FSF Pillar III provided a USD 2 million grant to provide financial and technical assistance for public financial management. The project resulted for instance, for the first time in 20 years, in the development of an appropriate legal framework for fiscal and monetary institutions as well as human and institutional capacity. A package of additional support using FSF Pillar III and other bilateral or thematic trust funds is currently being prepared and will target all three regions (i.e. Somalia under the Transitional Federal Government, Puntland and Somaliland).

During the 2011 drought crisis in the Horn of Africa, the Bank Group provided emergency assistance, albeit on a limited scale, to Somalia and three other countries from the Bank's Special Relief Fund (USD 4 million). Somalia is also expected to be a major beneficiary of the regional operation, the *Horn of Africa Drought Resilience and Sustainable Livelihoods Program*, currently under preparation. The project aims to address the chronic food security challenges in the region by investing in long-term solutions focusing on rural infrastructure, water management and agricultural support. The program has a technical assistance and capacity building component – which will support the Inter-Governmental Authority on Development – and operational and policy support at country and regional levels involving seven countries (Djibouti, Ethiopia, Kenya, Somalia, Sudan, South Sudan and Uganda).

Sudan and South Sudan: The Bank Group's support for South Sudan has focused on the continuation of support that had been initiated for Sudan prior to the independence of South Sudan, and designing an FSF-financed technical assistance and capacity building operation. The project aims to build the public financial management capacity of the new state and its ability to manage and coordinate donor assistance effectively. In addition, the Bank had two active projects in South Sudan in 2012: the *Institutional Capacity Building for Poverty Reduction and Good Governance Project* approved in 2007 which is almost fully implemented both in North and South Sudan, and was particularly instrumental in completing the Baseline Household Survey in 2010 and the preparation of the South Sudan Development Plan (2011-2013). The second project, financed by the Nordic Trust Fund, was agreed in February 2012 to support the University of Juba. The project aims to strengthen the University's capacity to provide training in auditing, fiduciary management and revenue mobilization with a view to enhancing the capacities of public sector officials in improving service delivery. Similarly in Sudan, Pillar III resources are being used to provide technical assistance and capacity building support to improve public financial management functions, while resources from the African Water Facility are being used to finance a water supply and livestock project in Darfur.

More broadly, leading up to South Sudan's independence and since then, the Bank Group's strategic engagement with Sudan and South Sudan has focused on (i) accelerating a peaceful settlement of post-independence issues with Sudan, by providing advisory support and technical assistance to the African Union High-Level Implementation Panel on Sudan – especially on economic and financial issues; (ii) engaging in policy dialogue and technical support on arrears clearance and debt relief through the Sudan Technical Working Group on Debt; and (iii) deepening dialogue and conducting analytical work to prepare the ground for full-fledged support that aims to address effectively the development challenges, particularly in infrastructure (South Sudan). To this end, the Bank led a comprehensive assessment of the infrastructure gaps and investment needs and prepared the South Sudan Infrastructure Action Plan which will serve as the key reference document for the Government and development partners for prioritizing infrastructure investments and mobilizing resources.

Zimbabwe: Following Zimbabwe's Global Political Agreement in 2008, the Bank through Pillar III (UA 4 million) of the FSF has been able to actively assist the country's transition in advance of its eligibility for regular ADF and Pillar I resources. The FSF support has aimed at strengthening public institutions which are vital for good governance and growth. Support has been focused on capacity building in public financial management, statistics, and debt management. This restored capacity has contributed to the substantial progress that Zimbabwe has made in economic management, and is helping to pave the way for the country to gain support for arrears clearance and enable it to re-engage with the international financial community.

FSF Pillar III resources have also been used in an innovative manner to crowd in other sources of financing, such as the Bank-managed multi-donor trust fund for Zimbabwe, the Zim-Fund. A portion of Pillar III resources was used to finance the cost of an independent procurement agent, a key requirement for the implementation of the Zim-Fund. To date, the Zim-Fund has mobilized USD 96 million in donor contributions to support the rehabilitation of infrastructure in the energy and water sectors for improved service delivery. In addition, the Bank Group in partnership with the African Water Facility is supporting water and sanitation projects, and the Bank was able to respond to the 2009 humanitarian emergency with resources from the Bank's Special Relief Fund. Furthermore, following the Board's approval of Zimbabwe's eligibility for FSF Pillar I resources of UA 16 million, the preparation of the *Capacity Building Project for Public Finance, Debt and Economic Management* (UA 8 million) has commenced and is expected to be presented to the Board in late 2012.

Annex VI: Promoting Gender Equality in Higher Education - Rwanda

The *Rwanda Science and Technology, Skills Development Project* (approved in 2008, UA 6 million) supports the Government of Rwanda's efforts in expanding access to skills development in science and technology in higher education through the Kigali Institute of Science and Technology. The project was designed with a particular gender dimension, the *Equal Opportunity Programme*, geared towards strengthening Rwanda's education and training system to produce skilled young women in the field of science and technology. The Bank Group supports three specific areas: a preparatory support program, a scholarship scheme, and information, education and communication activities.

Two cohorts of female students have completed the preparatory program since the launch of the project in 2008. Among the first cohort (2009-10), 121 students completed the preparatory program and successfully enrolled in higher learning institutions of science and technology in the country; 71 students who completed the preparatory during the 2010-11 academic year are expected to be enrolled shortly. The scholarship scheme enables these girls to achieve their own dreams as well as the country's objective of building capacity for both women and men in science and technology.

Below is the story of Germaine Uwiragiye, one of the students in the 2011 academic year who completed the program at the top of her class.

MY STORY

I am Germaine UWIRAGIYE, I was born in 1989, in WESTERN province, KARONGI district, GISHYITA sector and in CYANZA cell. At home, we are four children; one boy and three girls, among these girls, I am the only one who got a chance of studying. I have only my mother, she is called YUKANSINDA Adile and my father was called BARUTWANAYO Dicheal. My family members are farmers, so, they could not pay my tuition. I finished my secondary school in 2009 in Physics-Chemistry and mathematics combination, I missed three points to join university. I stayed at home until when I got this promotion in May 2011. In my life, I have always wished to become a doctor. So, as my dream is to become a doctor, my life has target of managing time, of using correctly all my chance, of studying as hard as possible and never giving up until when I will achieve my dream. My dream seems closer now. The day I got this chance, I was overjoyed. I finished a five months preparatory program and emerged the best of the group. Now ready to pursue my dream.

Thanks to the government of Rwanda and African development Bank for giving girls a second chance!

~~Germaine~~
UWIRAGIYE GERMAINE.

Annex VII: List of ADF-12 Approved Operations

(UA Millions)

Project Name and Sector	Country	ADF-12 Financing PBA, FSF, RO (including surcharges)*	Financing from Cancellations	TOTAL Approved Projects
Agriculture & Food Security				
Rural, Pastoral and Transhumance Infrastructure Project	Chad	11.29		11.29
Rural Infrastructure Development Support Project (PADIR)	Congo DRC	57.90		57.90
Agricultural Infrastructure Support Project in Indénié-Djuablin Region (PAIA-ID)*	Cote d'Ivoire	25.28		25.28
Smallholder Agricultural Productivity Enhancement and Commercialization (SAPEC) Project	Liberia	4.00		4.00
Multinational CGIAR Support to Agricultural Research for Development of Strategic Crops in Africa (SARD-SC)	Multinational	46.70		46.70
Water Mobilisation Project to Enhance Food Security in Maradi, Tahoua and Zinder Regions (PMERSA-MTZ)*	Niger	9.34		9.34
Livestock Infrastructure Support Program (sector budget support)	Rwanda	21.81		21.81
Marketing Infrastructure Value Addition and Rural Finance Support (MIVARF) Programme	Tanzania	40.00		40.00
Community Agricultural Infrastructure Improvement Programme - 3 (CAIIP-3)*	Uganda	40.00		40.00
Governance				
Accelerated Growth Strategy and Business Environment Support Programme (PASCACAF)	Burkina Faso	58.53		58.53
Fourth Economic Reform Support Programme (PARE IV)	Burundi	7.00		7.00
Fifth Economic Reform Support Programme (PARE V)	Burundi	12.00		12.00
Third Economic Reform Support Programme (ERSP III)	Central African Rep.	16.00		16.00
Public finance modernization support project (PAM-FP)	Congo DRC	11.71		11.71
Emergency Programme to Restore Basic Social and Administrative Services (PURSSAB)	Cote d'Ivoire	79.43	23.1	102.53
Promoting Basic Services Programme (PBS III)	Ethiopia	166.00		166.00
Institutional Support Project for Economic and Financial Governance (ISPEFG II)	Gambia	2.34		2.34
Poverty Reduction and Business Environment Support Program (PRBESP)	Ghana	74.43		74.43
Economic and Financial Reform Support Program - PAREF	Guinea	23.41		23.41
Economic Governance and Competitiveness Support Program (EGCSP II)	Liberia	30.00		30.00
Restoration of Fiscal Stability and Social Protection (RFSSP) Programme	Malawi	30.43		30.43
Second Growth and Poverty Reduction Strategy Support Programme (GPRSSP II)	Mali	33.00		33.00
Growth and Public Sector Efficiency Program	Mozambique	60.00		60.00
Domestic Resource Mobilization and Economic and Financial Governance Improvement Support Project (PAMOGEF)	Niger	10.00		10.00
Poverty Reduction Strategy Support Program Phase IV (PRSSP-IV)	Rwanda	27.15		27.15
Economic Reform Support Programme (PARE)	Senegal	27.00		27.00

Economic Governance Reform Program II (EGRP II)	Sierra Leone	10.00		10.00
Public Financial Management and Business Enabling Support Project	Sierra Leone	4.00		4.00
Governance and Economic Competitiveness Support Program (GECSP)	Tanzania	100.00		100.00
Reform and Governance Support Programme Phase II (PARG-2)	Togo	20.00		20.00
Fourth Poverty Reduction Budget Support Program (PRBS IV)	Zambia	15.00		15.00
Human Capital Development				
Technical Assistance and Capacity Building at the Ministry of Higher Education (FSF Pillar III)	Congo DRC	0.28		0.28
Support to Technical, Vocational Education and Training Project (STVET)	Eritrea	14.07		14.07
Development of Skills for Industry Project (DSIP)	Ghana	74.26		74.26
Supplementary Financing for Labor-Based Public Works Project (LBPWP)	Liberia	5.00		5.00
Technical Assistance to Retain High Level Professors at the A.M. Dogliotti College of Medecine, University of Liberia (FSF Pillar III)	Liberia	0.19		0.19
Support for Higher Education, Science and Technology Project (HEST)	Malawi	21.87		21.87
Competitiveness and Job Creation Support Project (PSD)	Malawi	10.00		10.00
Multinational_African Virtual University Support Project - Phase II (AVU II)	Multinational	11.71		11.71
Multinational_Mainstreaming Managing for Development Results in Regional Member Countries (RMCs) and Regional Economic Communities (RECs) Project	Multinational	10.53		10.53
Alternative Learning Skills and Development Project - Phase 2 (Zanzibar)	Tanzania	15.00		15.00
Improvement of Health Services Delivery at Mulago Hospital and in the City of Kampala Project	Uganda	46.00		46.00
Infrastructure				
Energy				
Lom-Pangar Hydroelectric Project	Cameroon	44.93		44.93
Electricity Transmission and Distribution Network Development Project	Cape Verde	8.42		8.42
Menengai Geothermal Development Project	Kenya	80.00		80.00
Itezhi-Tezhi Hydro Power and Transmission Line Project	Zambia	30.00		30.00
Transport				
Multinational_Project to Rehabilitate the Lomé-Cotonou Road and Facilitate Transport on the Abidjan-Lagos Corridor – Phase I	Benin	78.98		78.98
Multinational_Project to Rehabilitate the Lomé-Cotonou Road and Facilitate Transport on the Abidjan-Lagos Corridor – Phase I	Togo	5.63		5.63
Multinational_Rehabilitation and Transport Facilitation on the Lome-Cinkanse-Ouagadougou CU9 Corridor**	Burkina Faso	78.04	39.46	117.50
Multinational_Rehabilitation and Transport Facilitation on the Lome-Cinkanse-Ouagadougou CU9 Corridor	Togo	74.58	0.105	74.69
Projet d'Aménagement et de bitumage de la route Gitega-Nyangunga-Ngozi Phase II **	Burundi	43.71		43.71
Multinational_Project to Develop Roads (Mugina-Mabanda-Lake Nyanza and Rubavu-Gisiza) and facilitate transport on the North-South, Phase III (Burundi/Rwanda)**	Burundi	32.19		32.19
Multinational_Project to Develop Roads (Mugina-Mabanda-Lake Nyanza and Rubavu-Gisiza) and facilitate transport on the North-South, Phase III (Burundi/Rwanda)**	Rwanda	45.82		45.82

Transport Facilitation Programme on the Douala-Bangui and Douala-N'Djamena Corridors (supplementary financing)	Central African Rep.	4.92		4.92
Batshamba-Tshikapa Road Improvement Project: Loange Bridge-Lovua Bridge Section	Congo DRC	62.68		62.68
Bedele - Metu Road Upgrading Project **	Ethiopia	41.06		41.06
Multinational_Mombasa-Nairobi-Addis Ababa Road Corridor (Phase III)**	Ethiopia	105.00		105.00
Multinational_Mombasa-Nairobi-Addis Ababa Road Corridor (Phase III)**	Kenya	120.00		120.00
Multinational_Trans-Gambia Corridor (Phase I) - Construction Of The Trans-Gambia Bridge And Cross Border Improvement	Gambia	74.39		74.39
Multinational_Trans-Gambia Corridor (Phase I) - Construction Of The Trans-Gambia Bridge And Cross Border Improvement	Senegal	3.18		3.18
Matotoka – Sefadu Road Rehabilitation Project -Section I: Matotoka – Yiye**	Sierra Leone	23.16		23.16
Road Sector Support Project II	Tanzania	140.00		140.00
Multinational_Kazungula Bridge	Zambia	51.00		51.00
ICT				
Bamako Digital Complex Support Project	Mali	14.00		14.00
Water Supply & Sanitation				
Drinking Water Supply and Sanitation Project in Eight Secondary Centres and Surrounding Rural Areas	Chad	18.79		18.79
Rural Water Supply and Sanitation Project	Gambia	1.30		1.30
National Rural Drinking Water Supply and Sanitation Programme (NRDWSSP) (Phase II: Second Sub-Programme - 2011-2014)	Niger	16.00		16.00
Zaria Water Supply and Sanitation Project	Nigeria	63.92		63.92
Sector Budget Support to Water Supply and Sanitation Program	Uganda	40.00		40.00
Multisector - Pan-African Regional Public Goods				
Multinational_Program to Build Statistical Capacity for MDGs Monitoring and Results Measurement	Multinational	23.41		23.41
FSF Pillar III Capacity Building Support & Technical Assistance				
26 projects in 13 countries		14.15		14.15
TOTAL Approved Operations		2,621.91	62.67	2,684.58

Notes: *Surcharges are applied on amounts approved in the form of grants; **Infrastructure projects linked to agriculture.