

ADF-14 First Replenishment Meeting
Abidjan, 17-18 March 2016
Coordinator's Summary

ADF Deputies met in Abidjan, Côte d'Ivoire, from 17 to 18 March 2016, for the first consultation meeting of the fourteenth replenishment of the African Development Fund (ADF-14). They were joined by Governors (or their representatives) from Côte d'Ivoire, Lesotho, Tanzania, Chad and Senegal and observers from International Financial Institutions. The President of Liberia, the Honourable Mrs Johnson-Sirleaf also addressed the meeting. The meeting was chaired by Mr. Richard Manning, the ADF-14 Coordinator.

AfDB Group President, Dr Akinwumi Adesina, opened the meeting by conveying condolences to the Government of Côte d'Ivoire and the victims of the terrorist attack in Grand-Bassam on March 13, 2016. President Adesina then pointed out that the replenishment discussions were taking place in the immediate aftermath of various landmark global agreements that have collectively set ambitious goals for sustainable development. The challenges for the continent are vast and Africa's development partners should redouble their efforts to collectively deliver on the shared goals. The President recognized how the economic outlook for ADF countries remains generally positive. However, he also noted how this growth remains below the 7% threshold needed to meet the SDGs. As ADF countries move towards these goals, vulnerabilities and risks remain. Of particular concern is absence of adequate job opportunities, particularly for young people, many of whom are responding by seeking to emigrate, sometimes via informal or illegal channels, to other places. The President noted how this is a problem whose solution lies first and foremost in a thriving and prosperous Africa, hence the need for a strong ADF.

President Adesina indicated that to continue delivering on its value proposition, the ADF will continue to be guided by the objectives of the Bank Group's Ten-Year Strategy while having a sharper focus on five priority areas: Lighting up and powering Africa; Feeding Africa; Industrializing Africa; Integrating Africa; and Improving the quality of lives for Africans. He shared with ADF Deputies that discussions are ongoing with the Bank Group's Boards of Directors about a proposed new business delivery model, which will enhance the effectiveness of processes and delivery of results on the work of the Fund in its next cycle. The President also informed ADF Deputies about the progress on other institutional strengthening issues, including the ongoing competitive recruitment process for several crucial Senior Management positions.

Her Excellency President Ellen Johnson Sirleaf of Liberia was the keynote speaker for the meeting. She commended the Bank for its responsiveness in addressing the needs and special circumstances of her country, and recognized the crucial role played by the ADF's Transition Support Facility as well as the Fund's efforts in countries emerging from post-conflict and fragile situations. She mentioned that Africa stands at a time of golden opportunity – an opportunity that with just a little bit of effort could create a virtuous cycle of more inclusive growth, greater peace and long-term stability on the continent, and global peace, shared growth and prosperity in our common world. She emphasized that the ADF continues to be a credible and responsive partner for peace and development across the continent, particularly as it has demonstrated a deep understanding of fragility. She asked ADF Deputies and ADF administrators to seriously consider increasing the financing envelope for regional operations which has a substantial multiplier effect but whose allocation never seem to meet the existing demand. She welcomed President Adesina's vision on how the AfDB Ten-Year Strategy will be scaled-up through the five high priorities he identified. In addition, she emphasized the importance of ADF's transport infrastructure investments in Liberia.

Participants commended Management for the timeliness and quality of the papers prepared for the Replenishment Meeting.

African Economic Outlook

Deputies agreed with the key messages that ADF countries, which maintained resilience in the face of global and regional shocks, have favorable medium-term prospects with a strong GDP growth expected in the near future. However, they stressed that improvements in the macroeconomic situation varied considerably between countries and many countries' policy buffers have been eroded. Several Deputies expressed concerns about the increase in the size of non-concessional loans accessed by ADF countries, including from the international capital market, which could contribute to debt distress situations in the short to medium-term. They pointed out that such a risk is not inconceivable if commodity prices remain low, particularly in the case of oil and mineral exporters. Deputies suggested that the ADF is well placed to play a key role in domestic resource mobilization as well as in diversification of economies. They encouraged the Bank to continue to work on combatting the flow of illicit finance. Deputies highlighted the need for country-based approaches in analyzing the macroeconomic situations and the needs of ADF countries in order to make better judgements on what works and what doesn't for sustained and inclusive development, including in regards to industrialization and economic diversification. While acknowledging the role of the Bank and the Fund in providing counter-cyclical financing in times of crises, some deputies emphasized that this mandate does not cover the financing of structural budget deficits and that the division of labor with the IMF should be respected. Deputies emphasized that the ADF should keep collaborating with sister organizations, including the Breton Woods institutions, on analytic and diagnostic works.

ADF-14 Strategic direction and operational priorities

Management underlined the unique role of the Bank as a trusted partner to the continent and the ADF's achievement of development results. Deputies expressed support for the proposed continued alignment of the Fund with the Bank Group's Ten Year Strategy (TYS) and the linkage with the High 5s. Deputies underscored that the overarching objectives of the TYS, inclusive and transition to green growth, must also apply to the High 5s.

Nonetheless, Deputies requested more clarity on several issues, including: (i) how ADF-14 resources will be used to deliver on the 2030 Agenda, the Addis Ababa Action Agenda and the Paris Climate Change Agreement in an integrated way; (ii) how the Bank Group will address implementation capacity and operational effectiveness issues while it looks to scale up its operations in the identified five priority areas; (iii) progress on the Bank Group's institutional reforms; (iv) the Bank Group's revised delivery model and decentralization plans and how the Management intends to sustain quality and efficiency during ADF-14; and (v) an update on the various ADF instruments, particularly those for private sector development, and how they have been operating. Several Deputies also noted that importance of ADF maintaining a high level of selectivity within the five priority areas, including a continued emphasis on infrastructure. In this context, some deputies also emphasized the relevance of infrastructure governance and maintenance.

Deputies urged the expeditious finalization of all strategies to be discussed with the Bank's Boards with a clear sense of the Bank's role agreed before their second meeting in June. Deputies also requested the President to update them at that meeting on the progress on the various issues outlined above. They looked forward to a revised version of the Strategic paper, which would: (a) provide an update on the New Business Delivery Model and on various High5s policy papers agreed by the Board, with specifics regarding how the High 5s will be operationalized in ADF countries; and (b) discuss the key cross-cutting issues of interest to Deputies in the TYS, including ADF-14's contribution towards the twin goals of supporting recipient countries towards more inclusive and greener growth, the ADF's

role in addressing climate change; gender; and governance issues. For each of these topics the revised paper report should briefly assess progress to date and set clear objectives for the ADF-14 period. A progress report on the results framework for the ADF-14 period will also be prepared for the next replenishment meeting to enable an exchange with Deputies before its submission to the Board.

Deputies also requested Management to develop a paper on how the ADF-14 will address situations of fragility taking account of the spectrum of different types and extent of fragility. In general, they expressed the need to increase the funding for fragile States. That paper should reflect on the experience of ADF-13 before making proposals for the architecture of the fragility agenda (including the TSF) in ADF-14.

Innovative Finance Instruments

Deputies welcomed Management's proposed options on innovative financial instruments with a view that at least one of the proposed instruments should be adopted to ensure that ADF-14 is sufficiently resourced to deliver on the ambitious operational priorities, especially given the projected decrease in ADF-14 Advanced Commitment Capacity (ACC). Some countries expressed a clear preference for at least one of these instruments, but Deputies agreed to continue considering each of the three instruments in advance of the second ADF-14 meeting.

Deputies requested management to provide a stock-take, drawing on the discussion in March and bilateral exchanges with Deputies. This would include a technical note on the consequences of alternative options and assumptions for the ACC, the long-term financial sustainability of the Fund as well as for the grant compensation and grant contributions over a longer period, and a modelling of the consequences of a less optimistic scenario for basic grant contributions. There would also be a technical note on ADF liquidity policy. The stock-take should so far as possible indicate possible levels of potential finance for a Bridge Loan and for Concessional Donor Loans (CDLs) at both zero rates of interest and rates up to 1%. Deputies will have further discussions on the proposed parameters for the provision of such loans, as some Deputies noted that the proposed parameters are appropriate to limit the substitution risk to grant contributions while other Deputies noted that the proposed parameters could limit interest in provision of such loans in amounts significant for the outcome of the Replenishment.

Most Deputies requested additional information on Management's proposal to use any additional CDL proceeds for on-lending to the private sector. They requested more detail and granularity. Deputies requested that a broader paper spelling how ADF will support private sector development in Africa be produced for the second replenishment meeting. The possible use of additional CDLs to support private sector operations should be explained in that paper alongside other possible options.

ADF-14 financing framework

Responding to the proposal presented to them in the financial paper, Deputies agreed to reference exchange rates using the 6 month average for a synthetic Special Drawing Rights basket over the period ending 3 October 2016. They likewise agreed that the 10 year encashment schedule should remain in place with provision for voluntary accelerated payments, and that accelerated encashment should be fully hedged. Deputies also agreed with Management's proposal that the technical gap would be discussed closer to the final replenishment meeting. Deputies requested that Management present an additional financing scenario based on flat donor contributions relative to ADF-13.

Addressing Fragility in the Performance-Based Allocation (PBA) System

Deputies underscored their strong support for ADF's engagement in fragile states and to address situations of fragility. Many expressed openness to considering allocation of a greater percentage of ADF-14 resources to address fragility, for which the paper on fragility for the second ADF-14 meeting should present options. Deputies noted analysis of possible options to incorporate a fragility component in the PBA formula. They emphasized that changes, if any, to the formula ought to be as simple, transparent and as comprehensible as possible. Likewise, any changes should be built on sound and accessible data, maintain the focus on performance, and have evidence of the links between proposed indicators and poverty reduction and growth. Some deputies recommended that any reform should result in a reduction of the complexity of the formula. A few Deputies asked to receive a few additional simulations of inclusion of a fragility component in the PBA, but some Deputies expressed a strong view that ADF should address fragility without changing the PBA components. In this respect, most Deputies had a preference for keeping the Transition Support Facility.

IDA-ADF Collaboration

Deputies appreciated Management's effort to begin a conversation on the roles of IDA and the ADF in Africa, as this topic is overdue for discussion. They also welcomed the increased contact between IDA and ADF management that this effort has generated. However, they noted that the paper was too general and did not cover several of the specific areas that the co-chairs of the ADF-14 and IDA-17 working groups requested. Deputies suggested that they would have liked to see much more on what works and doesn't work well and, what is needed across a wider spectrum of collaboration (where? when? how?) given the different mandates and systems of both institutions. The coordinator will circulate a summary of the discussion on this topic to IDA-18 co-chairs.

Next Meeting

Participants agreed that the next meeting would be held in Abidjan in late June or early July, with notional dates of 28-29 June, 2016¹. Dates for the third (and last) meeting were also tentatively agreed for 31 October- 1 November, 2016. The venue, expected to be in a donor country, will be communicated soon by Management.

¹ Subsequent discussions have concluded that the dates for the next meeting will be 30 June-1 July.

Annex: Documents agreed for the 2nd Meeting

1. ADF-14 Strategic direction and operational priorities (revised version)
2. ADF 14 Indicative Pipeline
3. ADF-14 Results framework
4. ADF-14 Resource Allocation Framework
5. Options for Addressing Fragility in ADF-14, including the TSF
6. ADF-14 Innovative financing instruments (revised version)
7. ADF Liquidity Policy
8. Options for use of ADF-14 Resources to Better Promote Private Sector Development
9. ADF-14 Financing Framework and Capacity (updated version)