

# **AFRICAN DEVELOPMENT FUND**



## **WORKING PAPERS**

### **FOURTH MEETING OF THE NEGOTIATIONS ON THE TENTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND**

***COPENHAGEN, DENMARK — 16–17 December 2004***



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# AFRICAN DEVELOPMENT FUND

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## FOURTH MEETING ON THE CONSULTATIONS ON TENTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND (ADF-X)

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**Agenda**

# AFRICAN DEVELOPMENT FUND

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## FOURTH MEETING ON THE CONSULTATIONS ON TENTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND (ADF-X)

### PROVISIONAL AGENDA (REV.2)

#### Wednesday, 15 December 2004

19:30	Cocktail
20:00	Dinner hosted by the ADB President for Heads of Delegation*

#### Thursday, 16 December 2004

8:30	Registration	
9:00	Opening Remarks by Omar Kabbaj, President of the Bank Group	
9:15 – 10:30	Debt Sustainability and ADF-X Financing Terms	ADF-X/CM.4/2004/01 ADF-X/CM.4/2004/02
10:30 – 11:00	Coffee Break	
11:00 – 13:00	Debt Sustainability and ADF-X Financing Terms (continued)	
13:00 – 14:30	Lunch Break	
14:30 – 16:00	Review and Approval of the ADF-X Report  ♦ Independent Evaluation Report ( <i>Hard copy distributed separately</i> )  ♦ Action Plan to Improve Fund Operations	ADF-X/CM.4/2004/03
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16:30 – 18:00	ADF-X: Financing Framework and Pledges	

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8:30 – 10:30	ADF–X: Final Pledges by Donors
10:30 – 11:00	Coffee Break
11:00 – 13:00	ADF–X: Final Pledges by Donors (continued)
13:00 – 14:00	Lunch
14:00 – 15:00	Chairman’s Summary/Press Release
15:00	Adjournment

\* Please note that the cocktail/dinner hosted by the ADB President will be at the Copenhagen Admiral Hotel.

# **1. Possible Implications for ADF-X Financing Terms of Adopting a Revised NPV-of-Debt to Exports Threshold and Placing a Cap on Grants**

# **AFRICAN DEVELOPMENT FUND**



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ADF-X/CM.4/2004/01

## **Possible Implications for ADF-X Financing Terms of Adopting a Revised NPV-of-Debt to Exports Threshold and Placing a Cap on Grants**

**November 2004**



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## I. Introduction

1. It would be recalled that for the third meeting of the ADF-X Consultations, the Fund had prepared a paper on “*The New IMF/World Bank Debt Sustainability Framework and its Possible Implication for ADF-X Financing Terms.*” The paper had reviewed the salient features of the proposed framework that had been discussed by IDA Deputies at the second IDA-14 consultations meeting held in Hanoi in July 2004. The paper had indicated that the proposed IMF/World Bank framework had two major pillars: (i) a derivation, based on historical data, of appropriate debt threshold levels for selected external debt-burden indicators, and (ii) forward-looking debt sustainability analyses -- including subjecting such analysis to stress tests -- to determine the likely path in the future of the selected debt burden indicators for each country.

2. The paper had then proceeded to draw out the possible implications for ADF-X financing terms. To assist in this assessment, four simulations were carried out. The simulations had indicated that were the policy-dependent debt thresholds proposed by IDA adopted, they would lead to an overall grant level of between **29.2 to 30.7 percent** for ADF-X.<sup>1</sup> The paper, however, had also noted that were the more prudent IMF thresholds used, the overall grants level would range between **30.5 to 39 percent** depending on the grants allocation system to be used. Further, it was pointed out that as a number of countries with low incomes and low per capita exports would no longer receive grants under the new framework -- and as the applicable debt thresholds had not been tested under forward-looking debt sustainability analyses -- it may be more prudent to have a portion of their ADF allocations in the form of grants. Accordingly, a grant level of 25 percent was proposed as a possible option. This would have raised the total grant level under ADF to **39.1 percent**.

3. At the Hanoi IDA-14 consultations meeting, IDA Deputies expressed broad support for the proposed framework, although concern was expressed about the lack of forward-looking Debt Sustainability Analyses (DSAs). In addition, some Deputies felt that some of the low-income countries that may be judged as currently having sustainable debt levels may in fact prove to be highly vulnerable to shocks and thus may face debt distress in the future. In conclusion, while broadly endorsing the proposed approach, Deputies asked IDA to undertake additional work to test further hypotheses and options with respect to country classifications, grant allocation mechanisms and thresholds, and financing of grants.

4. In line with the request of IDA Deputies, IDA prepared a new paper on “*Debt Sustainability and Financing Terms in IDA-14: Technical Analysis of Issues and Options*”. The paper presented alternative grant eligibility scenarios, examined the possibility of introducing five grant-eligibility categories, and also examined allocation mechanisms and grant financing issues. Among the various simulations, IDA had undertaken a sensitivity analysis of grant allocations to changes in the debt burden thresholds by using *NPV-of-Debt to Exports* thresholds of 100, 150, and 200 percent for countries with weak, medium, and strong performances respectively.<sup>2</sup>

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<sup>1</sup> The calculations were based on the 2003 CPIA rating of countries and quartile or quintile classification of countries with respect to the strength of their policy and institutional stance and applying the relevant policy thresholds to the different groups.

<sup>2</sup> See IDA, *Debt Sustainability and Financing Terms in IDA-14: Technical Analysis of Issues and Options*, Annex IV, September 2004.

5. IDA Deputies discussed the paper at their third IDA-14 consultations meeting in Washington D.C. in October 2004. Following extensive discussions, the general agreement reached, as reflected in the Chairman's Summary, were the following: (i) the terms of IDA financing would indeed be based on the debt sustainability framework developed by the World Bank and the IMF, (ii) further work would be done to adopt a more prudent approach to debt-burden thresholds and (iii) a more rapid progress needed to be made on the implementation of joint Bank-Fund debt sustainability analyses.<sup>3</sup>

6. In line with the decisions reached at the October 2004 IDA-14 meeting, IDA is in the process of finalizing a revised debt sustainability framework that incorporates more prudent policy-dependent debt thresholds. IDA has yet to issue the paper for its forthcoming IDA-14 meeting in December that will be held in Athens.

7. Pending IDA's paper, some ADF Deputies have enquired what the implications for the ADF would be were it to adopt the more prudent *NPV-of-debt to exports thresholds* discussed in IDA's October 2004 paper. Other Deputies had indicated that it might also be necessary to place a cap on grants under ADF in order to protect the financial strength of the Fund and to allay some of the implications for its mandate and policies that a large grant share may have. This 'interim' paper has been prepared in response to these queries and observations. It will be updated once IDA issues its revised debt sustainability paper for its December 2004 meeting.

8. The paper is organized as follows. In Section II, a short review of IDA's previous proposal is made and the revised NPV-of-debt to exports thresholds is compared to the ones that had been proposed earlier. In Section III, the implications for ADF-X financing terms of the revised thresholds are presented under what IDA had called the 'Pure Volume Approach'. In Section IV, the implications of adopting a 'Modified Volume Approach' by placing a 20 percent charge on grants, as recommended by IDA, is presented. In Section V, the implications of placing a cap on grants are discussed. And in Section VI, the cost of financing grants is presented, drawing on the *ADF Financing Framework* paper that the Fund distributed recently. In Section VII, the various options are summarized and the main issues for consideration by Deputies are presented.

## **II. The Preliminary IDA Proposal and a Revised NPV-of-Debt to Exports Threshold**

9. In the paper that IDA had prepared for the Hanoi meeting, it had proposed that three debt-distress indicators be used.<sup>4</sup> These were NPV-of-debt to GDP, NPV-of-Debt to Exports, and Debt Service to Exports.<sup>5</sup> And in line with the findings of the World Bank/IMF empirical paper on appropriate debt distress thresholds, IDA had recommended adopting the policy-dependent thresholds indicated in Table 1 below.

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<sup>3</sup> See the Chairman's Summary of the October 2004 Washington D.C. meeting.

<sup>4</sup> See IDA, *Debt Sustainability and Financing Terms in IDA 14*, June 2004.

<sup>5</sup> IDA has proposed to drop two other possible indicators NPV of Debt to Revenue and Debt Service to Revenue as there are both data and moral hazard issues associated with domestic revenue efforts with these two indicators.

**Table 1. Indicative Policy-Dependent Debt and Debt-Service Thresholds (%)**

Debt Indicators	Assessment of Institutional Strength and Quality of Policies		
	Poor	Medium	Strong
NPV of Debt to GDP	30	45	60
NPV of Debt to Exports	100	200	300
Debt Service to Exports	15	25	35

Source: World Bank, Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications, February 2004, p.21

10. In addition, IDA had proposed the adoption of a decision-rule that relates the percentage distance from the selected debt distress indicators for a given country to the level of credits and grants that would be provided to the country under IDA-14.<sup>6</sup> In this regard, IDA had made a proposal for a three-level ('traffic light') grants system:

- 100 percent credits (no grants) for countries deemed to have the likelihood of maintaining their selected debt distress indicators significantly below the selected thresholds (green);
- 50 percent grants for countries whose debt stress indicators are within a range of 10 percent of the proposed thresholds (yellow);
- 100 percent grants for countries whose debt distress indicators are assessed to remain above the 10 percent threshold (red).

11. Application of this rule for all IDA recipients and using the 2004 allocation of IDA resources resulted in an overall level of grants under IDA-14 of 22 percent. IDA had called this system the 'Pure Volume Approach'. IDA, however, recognized that as forward-looking DSAs become available, the classification of countries may change and the financing terms may also accordingly change.

12. Moreover, IDA proposed a further adjustment to the 'Pure Volume Approach' by levying a charge of up to 20 percent on grants – the 'Modified Volume Approach'. This was required to redress equity concerns and to correct for the weakening in the Performance-Based Allocation (PBA) system – that is the relation between performance and the actual level of allocation -- that is introduced by giving up to 100 percent grants to countries that generally have poor policies and institutions. IDA had suggested that 9 percent be used to cover its costs for administering the grants and it had suggested various alternatives for the use of the balance of 11 percent.<sup>7</sup>

### III. Implications for ADF of the Revised NPV-of Debt to Export Thresholds

13. As noted earlier, in its September 2004 paper, while exploring various simulations, IDA had undertaken a sensitivity analysis of grant allocations to changes in the debt burden thresholds by using *NPV-of-Debt to Exports* thresholds of 100, 150, and 200 percent for

<sup>6</sup> In determining the percentage distance of a country's debt indicators from the relevant threshold, IDA had proposed to have a composite indicator (a simple average) of the two stock indicators – the NPV of debt to GDP and the NPV of debt to exports -- together with the debt service to exports indicator.

<sup>7</sup> This had included: redistributing on a pro rata basis to countries with per capita income of less than US\$360 (one case involving only grants and the other using the IDA traffic light system for loans and grants); setting aside resources for grants-based HIV/AIDS operations; creating an incentive mechanism to reward stronger export performance; fully utilizing the resources from the volume discount for a harder-term lending

countries with weak, medium, and strong performances respectively.<sup>8</sup> This was in contrast to the previous one of 100, 200 and 300 percent. IDA had indicated that this change would result in the overall level of grants increasing to **31.4 percent** compared to the **22 percent** under the earlier thresholds.

14. In the analysis below, the implications for ADF of the change of the NPV-of-Debt to exports thresholds are analyzed.<sup>9</sup> The Fund's ratings derived from its Country Policy and Institutional Assessment (CPIA) system are used to classify countries as good, medium, and poor performers. The appropriate debt thresholds are then applied.<sup>10</sup> Under the ADF system, countries that have a rating equal to or above 4.0 are considered as strong performers; those above 3.5 (the average for all countries) and less than 4.0 as medium performers; and countries with a CPIA rating of below 3.5 are considered as poor performers.

15. The results on the level of grants under ADF-X are shown in Annex Table 1. As can be observed, the adoption of more prudent debt to exports thresholds has the following results:

- 24 countries (as opposed to 18 under the previous threshold) would obtain 100 percent grants; 4 countries (as opposed to 6 under the previous threshold) would get 50 percent grants and 50 percent loans, and 12 countries (as opposed to the 16 under the previous threshold and including the two blend countries) would receive 100 percent loans.
- All 19 countries deemed to have poor policy stands would receive 100 percent grants; of the 10 countries with medium policy stances, 4 would get 100 percent grants, 3 would get 50 percent grants and 50 percent loans, and the remaining three would get no grants but 100 percent loans. And of the nine countries deemed to have strong policy stances, -- seven would get 100 percent loans, one would get 50 percent loans and 50 percent grants, and one 100 percent loans.
- Using the Pure Volume Approach, the total level of grants under ADF-X is projected to stand at **46.8 percent** of the total in contrast to the **30.7 percent** under the previous thresholds.

#### IV. The 'Modified Volume' Approach: A Charge on Grants

16. As noted above, IDA had observed that allocating resources based on the proposed debt sustainability framework raised equity concerns with respect to allocation across countries with similar ratings. The 'Pure Volume Approach' also had the tendency of weakening IDA's Performance-Based Allocation (PBA) system, as the system was offering softer terms for poorer-performing countries. One alternative would have been what IDA called a 'Grant Element Approach' that would have led to a reduction of up to 40 percent in the volumes of allocation for countries receiving only grants.<sup>11</sup> This would have addressed

<sup>8</sup> See Annex IV of the October 2004 IDA paper.

<sup>9</sup> The values of the other two thresholds – the NPV-of-debt to GDP and the Debt Service to Exports are held the same.

<sup>10</sup> This approach is different than the one used in the Fund's paper prepared for the September 2004 Tunis meeting viz., *"The New IMF/World Bank Debt Sustainability Framework and its Possible Implications for ADF-X Financing Terms"*. Under the earlier paper, quartile or quintile rankings were used for the different simulations. In this paper, hard cut-offs are used.

<sup>11</sup> The Grant Element Approach would involve the following steps: allocating the grant element in the IDA envelope through the PBS system; scaling up part of the allocation of IDA credits, depending upon a countries debt distress grouping; and redistributing the unallocated IDA envelope to countries with GNI per capita equal to or below \$360 the form of grants, on a pro-rata basis to provide a cushion for vulnerability to shocks.

the equity issues and would also correct for the weakness introduced by the Pure Volume Approach. As this was, however, deemed too harsh with respect to the resource needs of countries receiving grants, IDA had proposed that a volume reduction on grants of only 20 percent be applied. This results in what IDA has called the 'Modified Volume Approach'.

17. IDA had also suggested that part of the charges – amounting to 9 percent in IDA's case -- be used to cover IDA's administrative charges for grants<sup>12</sup>. With respect to the balance of 11 percent IDA had made a number of suggestions (see paragraph 10 above) including re-distributing it to countries with a per capita income equal to or less than \$360 and using IDA's traffic light system. The alternative (used below) is to distribute the balance to ADF-only countries solely based on their PBA share but still using the traffic light system with respect to loans and grants.

18. IDA Deputies had in principle supported the 20 percent charge on grants and using part of it to cover IDA's administrative costs for grants. A firm decision with respect to the use of the balance has, however, yet to be made.

19. The use of a similar approach for the Fund has been explored. A 20 percent charge on the grant allocation of countries is made, and 13.2 percent is allocated to cover the foregone income of the Fund with respect to its administrative charges.<sup>13</sup> The balance of 6.8 percent is re-distributed to ADF-only countries using the traffic light system together with the PBA system, but excluding blend countries. As can be seen from Annex Table 1, such a charge would result in the reduction of the total level of grants to **41.6 percent**.

20. It needs to be noted that as the charge reduces the volume of resources allocated to countries with poor policy stances and as the remaining balance after deduction for administrative costs is partly reallocated to countries with strong and medium policy stances, it strengthens the relation between performance and allocation in the PBA system.

21. In sum, the modified volume approach has the following three consequences: it reduces the overall level of grants, it allows the Fund to recoup its administrative costs similar to its cost recovery system when it issues loans, and finally, the charge also contributes to a partial strengthening of the PBA system.

## V. Implications of Placing a Cap on Grants

22. As noted above, a number of ADF Deputies had indicated their concern that a high level of grants may undermine the financial strength of the institution and would also have implications for its policies and mandates. They had therefore suggested that a cap be placed on the grant level for ADF. In this section, the implications of adopting different levels of grant caps are assessed.

23. Placing a lower cap on grants than what is obtained under the Modified Volume Approach is essentially equivalent to increasing the up front charge from the initial 20

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<sup>12</sup> For the ADF, compensating it for the present value of the foregone incomes due to grants are estimated at: 11.94, 12.93 and 13.53 percent of the total amount of grants for grant levels of 30, 40 and 50 percent respectively. See the *ADF-X Financing Framework* paper.

<sup>13</sup> The 13.2 percent is based on the recent *ADF-X Financing Framework* paper that the Fund had distributed to Deputies.

percent that had been applied under this approach until the desired cap on the overall volume of grants is reached.

24. Simulations to determine the impact of different levels of caps on country allocations have been undertaken. For this analysis, three possible grant caps have been used – 40, 35, and 30 percent. The procedure involved is an iterative one where progressively increasing charges on grants are made and these are *re-distributed to ADF-only countries* (including those receiving grants) in accordance with the traffic light system for loans and grants and using their PBA shares until the desired cap is reached. The results are shown in Table 2. In addition, the implications of the different approaches are summarized in the table.

25. As can be seen from Table 2, the implied up front charges on grants under the 40, 35 and 30 percent caps are 26, 46, and 66 percent respectively.<sup>14</sup> It is evident from Table 2 that adopting progressively lower caps implies increasing the upfront discount substantially. Indeed, as a cap below 40 percent is progressively applied, it would imply that countries receiving only grants would begin to receive levels of resources lower than what is implied under the ‘Grant Element Approach’ discussed above.

**Table 2. The Pure and Modified Volume Approaches and Caps on Grants:  
Summary of Options and their Implications**

<b>Approach</b>	<b>Overall Grant Level (%)</b>	<b>Upfront Deduction on Grants (%)</b>	<b>Implications</b>
Pure Volume Approach	46.8	0	No adjustments for equity concerns or for the weakening of the link between performance and allocation -- caused by giving up to 100 percent grants to poorly performing countries -- are made.
Modified Volume Approach	41.6	20	Partially addresses the equity concerns and compensates for the weakening of the relation between performance and allocation; allows for internal financing of the administrative costs related to grants if part of the charge is used for this purpose.
40% Cap on Grants	40.0	26	Same as the Modified Volume Approach but a higher up front charge of 26 percent on grants is implied.
35% Cap on Grants	35.0	46	Same as the Modified Volume Approach but a higher up front charge of 46 percent on grants is implied.
30% Cap on Grants	30.0	66	Same as the Modified Volume Approach but a higher up front charge of 66 percent on grants is implied.

<sup>14</sup> The actual or ‘effective’ deductions for countries receiving grants are somewhat lower as a part of the deduction is redistributed using the traffic light system as well as PBA share as noted in the previous paragraph. Nonetheless, the approach implies a large redistribution – in the form of grants and loans – to better performing countries.

## VI. Grant Financing under ADF-X

26. In the *ADF-X Financing Framework* paper distributed to Deputies recently, financing of ADF-grants under different assumptions of grant levels -- 30, 40, and 50 percent -- had been presented. The paper indicates the present value of the foregone incomes and presents two options: (i) additional donor contributions during the ADF-X encashment period or (ii) levying a fee on grants in line with the Modified Volume Approach discussed above. The paper indicates that for grant levels of 30, 40 and 50 percent, the grant fee would have to be 11.94, 12.93, and 13.53 percent respectively.<sup>15</sup> The paper also discussed the financial impact of grants on the evolution of the Fund's finances. Assuming a steady state level replenishment level of UA 4 billion, the paper shows that increasing grant levels from 7.5 percent to 50 percent would result in the contribution from loan repayments falling from 75 percent to 41 percent for ADF XXV (2050-52), unless the Fund is compensated for the loss of principal reflows.

## VII. Summary and Issues for Discussion

27. The analysis presented above has shown that the adoption of more prudent NPV-of-Debt-to-Export policy-dependent debt thresholds would result in a significant increase in the projected level of grants under ADF-X. Under the 'Pure Volume Approach' (where no charges on grants are placed) the overall level of grants is projected to increase to **46.8 percent from 30.7 percent** using the previous thresholds. Adopting a 'Modified Volume Approach' by levying a fee of 20 percent on grants and using this partially to offset foregone income and redistributing the balance in the form of grants and loans using the IDA traffic light system and PBA shares lowers the level of grants to **41.6 percent**. Placing a cap on grants is essentially equivalent to increasing further the up front charge on grants. For a 40, 35 and 30 percent cap on grants, the equivalent up front charges stand at 26, 46, and 66 percent respectively.

28. In the light of the above, the main issues for consideration by ADF Deputies are the following:

- The desirability of lowering the NPV-of-debt to export thresholds to the 100, 150, and 200 percent, implying a more prudent approach to the probability of debt distress.
- The desirability of adopting a Modified Volume Approach for ADF by levying a charge of 20 percent on grants and using part of the proceeds (11.94 to 13.53 percent depending on the level of grants) to compensate the Fund for the foregone income due to grants and re-distributing the balance to ADF-only countries, using the IDA traffic light system and their PBA shares.
- The desirability of further adjusting the Modified Volume Approach by increasing the up front charges on grants to achieve the desired level of cap on grants.

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<sup>15</sup> The fees are levied such that the present value of projected fee receipts is equal to the present value of the foregone income reflows.



**Annex Table 1:**  
**The Implications of the Revised NPV - of - Debt to Export threshold on the ADF-X Grant Level\***

	GNP per Capita US\$ (2003)	NPV/GDP	NPV/EXP	DS/EXP	Pure Volume Approach (No reallocation)	Modified Volume Approach (20% Up Front Change on Grants)**
<b>Strong policy: CPIA &gt;= 4.0</b>						
1 Benin	440	29.6	145.4	5.6	0%	0%
2 Ghana	320	41.0	101.1	5.8	0%	0%
3 Mauritania	430	79.9	213.2	7.5	100%	100%
4 Senegal	550	38.8	138.3	8.7	0%	0%
5 Uganda	240	33.1	288.4	10.2	50%	45%
6 Burkina Faso	300	23.3	233.2	5.9	0%	0%
7 Cape Verde	1490	42.0	155.3	12.7	0%	0%
8 Mali	290	43.4	178.6	8.4	0%	0%
9 Tanzania	290	23.1	156.2	3.5	0%	0%
<b>Medium policy : 3.5 &lt; CPIA &lt; 4</b>						
1 Rwanda	220	39.7	540.6	17.3	100%	100%
2 Zambia	380	116.3	423.1	30.5	100%	100%
3 Cameroon	640	53.4	184.0	13.6	100%	100%
4 Lesotho	590	59.2	130.7	20.3	50%	45%
5 Kenya	390	37.0	153.4	15.5	50%	45%
6 Chad	250	31.6	217.4	10.3	50%	45%
7 Madagascar	290	26.8	136.6	5.6	0%	0%
8 Mozambique	210	34.5	74.6	2.8	0%	0%
9 Ethiopia	90	35.1	216.2	11.4	100%	100%
10 Niger	200	26.6	176.1	11.2	0%	0%
<b>Poor Policy : CPIA &lt; 3.5</b>						
1 Malawi	170	46.6	175.7	7.3	100%	100%
2 Gambia, The	310	76.0	104.8	6.8	100%	100%
3 Sao Tome and Principe	320	223.4	681.2	37.0	100%	100%
4 Congo, D.R.	100	147.3	818.9	90.3	100%	100%
5 Sierra Leone	150	90.8	771.5	24.8	100%	100%
6 Guinea	430	45.1	176.2	16.7	100%	100%
7 Burundi	100	104.4	1324.8	41.1	100%	100%
8 Djibouti	910	37.0	98.3	5.4	100%	100%
9 Eritrea	190	52.6	253.0	7.6	100%	100%
10 Congo, Rep.	640	162.1	201.3	1.0	100%	100%
11 Guinea-Bissau	140	211.3	735.7	23.9	100%	100%
12 Angola	740	86.1	131.3	11.6	100%	100%
13 Togo	310	84.1	263.6	3.0	100%	100%
14 Sudan	460	117.4	857.3	1.3	100%	100%
15 Côte d'Ivoire	660	80.4	210.9	18.6	100%	100%
16 Comoros	450	75.0	567.0	14.2	100%	100%
17 CAR	260	71.2	704.2	0.8	100%	100%
18 Liberia	130	438.7	1765.7	0.6	100%	100%
19 Somalia	n.a	n.a	n.a	n.a	100%	100%
<b>Blend Countries</b>						
1 Nigeria	320	72.3	153.3	7.3	0%	0%
2 Zimbabwe	480	47.1	194.0	2.9	0%	0%
<b>Overall Grant Level</b>					<b>46.8%</b>	<b>41.6%</b>

\* Only NPV of Debt to Exports adjusted to 100, 150, 200% for weak, medium and strong performing countries respectively.

\*\* 13.2% allocated to compensate for forgone income and the balance of 6.8% redistributed to ADF only countries (excluding blend countries) using the traffic light system and PBA shares.

## **1.2 Possible Implications for ADF-X Financing Terms of Adopting Revised Debt Threshold and Placing a Cap on Grants — Addendum**

# **AFRICAN DEVELOPMENT FUND**



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ADF–X/CM.4/2004/01/Add.

## **Possible Implications for ADF-X Financing Terms of Adopting Revised Debt Thresholds and Placing a Cap on Grants**

### *Addendum*

**December 2004**

## I. Introduction

1. In November 2004, the Fund had prepared and sent out to Deputies a paper entitled *“Possible Implications for ADF-X Financing Terms of Adopting a Revised NPV-of-Debt to Exports Threshold and Placing a Cap on Grants.”* The paper was intended as an ‘interim’ paper pending IDA’s revised paper on debt sustainability and financing terms. Since the distribution of the document, IDA has issued its revised paper<sup>1</sup> in which all three debt distress indicators: NPV-of-Debt to GDP, NPV-of-Debt to Exports and Debt Service to Exports have been revised.<sup>2</sup>

2. The purpose of the paper is to update the Fund’s November paper by taking into account the changes in all three debt thresholds. It also explores the different outcomes obtained by applying IDA’s CPIA classification of countries as opposed to the Fund’s own classification. The note is organized as follows: in Section II, the revised debt distress thresholds are compared with the earlier ones. In section III, the implications for ADF-X financing terms are presented using first IDA’s CPIA classification and second that of the Fund. The implications of choosing one or the other approach are also discussed. In Section IV, the table on the implications of applying a cap on grants that had been presented in the earlier Fund paper is updated. The paper concludes with a presentation of the issues that Deputies may wish to consider.

## II. The Revised Debt and Debt Service Thresholds

3. The policy-dependent debt and debt service thresholds that IDA had proposed earlier, based on the empirical studies that the IMF and the World Bank had undertaken, are indicated in Table 1 below.

**Table 1. Indicative Policy-Dependent Debt and Debt-Service Thresholds (%)**

Debt Indicators	Assessment of Institutional Strength and Quality of Policies		
	Weak	Medium	Strong
NPV-of-Debt to GDP	30	45	60
NPV-of-Debt to Exports	100	200	300
Debt Service to Exports	15	25	35

Source: World Bank, *Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications*, February 2004, p.21

4. In response to the request of IDA Deputies that IDA explore adopting more prudent thresholds – implying a lower probability of debt distress -- IDA has proposed the revised thresholds presented in Table 2 below. The methodology and decision rule that IDA had proposed earlier for determining financing terms, and which were discussed in the Fund’s earlier papers on debt sustainability, have, however, been maintained.

<sup>1</sup> IDA, *Debt Sustainability and Financing Terms in IDA-14: Further Considerations on Issues and Options*, November 2004.

<sup>2</sup> The revised NPV-of-debt to exports thresholds are, however, the same as that used in the Fund’s November 2004 paper.

**Table 2. Indicative Policy-Dependent Debt and Debt-Service Thresholds (%)**

Debt Indicators	Assessment of Institutional Strength and Quality of Policies		
	Weak (CPIA<3.25)	Medium (3.25<CPIA<3.75)	Strong (CPIA>3.75)
NPV of Debt to GDP	30	40	50
NPV of Debt to Exports	100	150	200
Debt Service to Exports	15	20	25

Source: IDA, *Debt Sustainability and Financing Terms in IDA-14: Further Considerations on Issues and Options*, November 2004, p.4

5. As can be seen from a comparison of the two tables, the change in the thresholds is for the group of countries classified as medium and strong performers. All three indicators have been revised downwards for these two groups of countries, with the threshold for NPV-of-Debt to exports for countries classified as medium performers the same as the HIPC threshold.

6. Another important change that IDA has introduced is the use of *absolute* CPIA cutoffs instead of defining them in terms of percentiles, as had been the case in its earlier papers. The new cut-offs imply that fewer countries would be classified as strong performers and, as noted in the IDA paper, this is in line with the more cautious approach to the overall probability of debt distress.

### III. Implications for ADF-X Financing Terms

7. As can be expected, the application of the more prudent debt thresholds together with the use of absolute CPIA cut-offs for classifying countries has the effect of raising the overall level of grants, as the number of countries eligible for grant financing increases. The extent of the increase depends on whether the IDA or the Fund's own CPIA-based classification is used. This is discussed in more detail below.

#### *Option I – Using IDA's CPIA Classification*

8. Applying IDA's CPIA cut-offs to classify ADF-only countries would result in 4 countries being classified as strong performers, 14 countries as medium performers, and 20 countries as weak performers (see Annex I). This classification and the application of the revised debt thresholds for each group would raise the overall level of grants to 58.9 percent for ADF under the Pure Volume Approach and to 53.8 percent under the Modified Volume Approach and using a three lights system (Annex Table 1). Under this classification:

- 32 out of the 38 ADF-only countries would be eligible for some level of grant financing and 6 countries (8 including the two blend countries) would be eligible for only loans.
- 28 countries (including all 20 weak performing countries) would be considered 'red light' countries and get 100 percent grants; 4 countries would be considered 'yellow light' countries and would get 50 percent grants and 50 percent loans; and the remaining 6 countries (eight including the two blend countries) would be considered as 'green light' countries and would only get loans.

## *Option II – Using the Fund’s CPIA Classification*

9. Applying the Fund’s own CPIA cut-offs to classify ADF-only countries would result in different results than IDA’s, as the Fund classifies more countries as strong performers (see Annex II). Under the Fund’s own classification 9 countries would be classified as strong performers, 10 countries as medium performers, and 19 countries as weak performers (Annex I). As a comparison between IDA and the Fund’s classification would show, the main difference between the two is the cut-off point between strong and medium performers. Countries in these two groups are the same except for three countries, although there is significant difference in rankings. The Fund’s classification and the application of the revised debt thresholds for each group would result in the overall level of grants being *49.0 percent* under the Pure Volume Approach and *43.8 percent* under the Modified Volume Approach and using a three lights system (Annex Table II). Under this classification:

- 29 out of the 38 ADF-only countries would be eligible for some level of grant financing and 9 countries (11 including the two blend countries) would be eligible for only loans.
- 26 countries (including all 19 weak performing countries) would be considered ‘red light’ countries and get 100 percent grants; 3 countries would be considered ‘yellow light’ countries and would get 50 percent grants and 50 percent loans; and the remaining 9 countries (11 including the two blend countries) would be considered as ‘green light’ countries and would get only loans.

## *Implications of the Two Options*

10. As can be seen from the above, the differences in the two classifications with respect to financing terms are the different manner four countries -- Burkina Faso, Mali, Niger and Senegal – are treated. Under IDA’s classification, Senegal and Burkina Faso would be considered ‘yellow light’ countries and would get 50 percent in loans and 50 percent in grants, and Mali and Niger would be considered ‘red light’ countries and would get 100 percent grants. Under the Fund’s classification on the other hand, Burkina Faso, Mali, and Senegal would be considered ‘green light’ countries and would receive only loans, and Niger would be considered a ‘yellow-light’ country and would receive 50 percent loans and 50 percent grants.

11. The use of the ADF classification instead of IDA’s would assure consistency between the Fund’s Performance Based Allocation (PBA) system that determines the amount of resources allocated to a given country and its financing terms.<sup>3 4</sup> It would, however, imply that for the four countries concerned, IDA and ADF would treat them differently with respect to their financing terms. More specifically, as ADF would give loans or lower level of grants than IDA to these countries, it can be argued that ADF is implicitly accepting a higher probability of debt distress for these countries. It should, however, be noted that this is a short-term problem as the system proposed above for determining financing terms can be expected to “... give way to a ranking system fully based on the insights generated by debt

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<sup>3</sup> It should, however, be recalled that the PBA is not solely based on the CPIA but on the Country Portfolio Rating (CPR) as well. The latter has a weight of 30 percent in the overall rating.

<sup>4</sup> Applying IDA’s classification for determining financing terms would, conversely, introduce a divide between the allocation of resources and financing terms, as consistency would require the use of the IDA CPIA for the allocation of resources in the PBA system, as the CPIA is used both for determining individual country allocations and financing terms.

sustainability analyses (DSAs)”<sup>5</sup>. All IFIs can be expected to use the forward-looking DSAs that the IMF and the World Bank are expected to produce jointly in determining financing terms for individual countries.

#### *Using a Five Traffic-Lights System*

12. In Annex Tables 4 and 5, the application of IDA’s five traffic-lights system is explored using the IDA CPIA classification of countries (Annex 4) as well as the ADF CPIA classification (Annex 5). The advantage of the five traffic light system is that it introduces a gradual increase in the proportion of grants (25, 50, 75 and 100 percent). When compared to the three-lights system, it also has the effect of increasing the number of countries eligible for grant. It does so by providing 25 percent of allocations as grants for some countries that did not get any grants under the three light system while reducing the proportion of grants for others from 100 to 75 percent. The impact on the overall level of grants is however minimal. Using the Fund’s CPIA system, for example, the increase in the overall level of grants is from 49 to 49.4 percent.

### **IV. Implications of Placing a Cap on Grants**

13. In the Fund’s November paper on debt sustainability the implications of placing a cap on grants was discussed. It was argued that placing a lower cap on grants than what is obtained under the Modified Volume approach is ‘essentially equivalent’ to increasing the up front charge from the initial 20 percent that had been applied under this approach until the desired cap on the overall volume is reached. The term ‘essentially equivalent’ was used to indicate that both involve a reduction on the volume of grants by using upfront charges, although for different reasons. Under the Modified Volume approach the charge on grants is made to take into account equity issues and to correct for the weakening of the PBA system while placing a cap could be justified by concerns for maintaining the financial strength and mandates of the Fund. The same methodology as in the Modified Volume approach is, however, applied to redistribute part of the resources obtained from the up front charge to maintain the integrity of the PBA system and the traffic light system.

14. In Table 3 below, the table that had been presented in the earlier paper is updated with respect to the upfront charge required to achieve the desired cap on the grant level taking into account the higher grant levels due to the downward revision of the debt thresholds and the adoption of the new CPIA cut-offs. A new column on the effective reduction in grants has been included to indicate that as part of the up front deductions is re-distributed through the PBA system and using the traffic light system, the actual reduction in grants is lower than the nominal upfront charge.

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<sup>5</sup> See IDA, *Debt Sustainability and Financing Terms in IDA-14: Further Considerations on Issues and Options*, November 2004, p. 3 Box.1

**Table 2. The Pure and Modified Volume Approaches and Caps on Grants:  
Summary of Options and their Implications**

<b>Approach</b>	<b>Overall Grant Level (%)</b>	<b>Upfront Deduction on Grants (%)</b>	<b>Effective Reduction in Grants</b>	<b>Implications</b>
Pure Volume Approach	49.0	0	--	No adjustments are made for equity concerns or for the weakening of the link between performance and allocation -- caused by giving up to 100 percent grants to poorly performing countries.
Modified Volume Approach	43.8	20	16.5	Partially addresses the equity concerns and compensates for the weakening of the relation between performance and allocation; allows for internal financing of the administrative costs related to grants if part of the charge is used for this purpose.
40% Cap on Grants	40.0	35	23.6	Same as the Modified Volume Approach but a higher up front charge of 35 percent on grants is implied, but an effective reduction of 23.6 percent as part of the grants is redistributed.
35% Cap on Grants	35.0	54.9	33.0	Same as the Modified Volume Approach but a higher up front charge of 54.9 percent on grants is implied, but an effective reduction of 33 percent.
30% Cap on Grants	30.0	75.0	42.4	Same as the Modified Volume Approach but a higher up front charge of 75 percent on grants is implied but an effective reduction of 42.4 percent.

## **V. Issues for Discussion**

15. The main issues that ADF Deputies may wish to consider with respect to ADF-X financing terms are the following:

- The advantages and disadvantages of using the Fund's CPIA cut offs for classifying countries as opposed to the IDA classification;
- The desirability of lowering the NPV-of-debt to export thresholds to the 100, 150, and 200 percent, implying a more prudent approach to the probability of debt distress.
- The desirability of using a three or five lights system.
- The desirability of adopting a Modified Volume Approach for ADF by levying a charge of 20 percent on grants and using part of the proceeds (11.94 to 13.53 percent depending on the level of grants) to compensate the Fund for the foregone income due to grants and re-distributing the balance to ADF-only countries, using the IDA traffic light system and their PBA shares.
- The desirability of further adjusting the Modified Volume Approach by increasing the up front charges on grants but redistributing part of the resources obtained to ADF-only countries by using the PBA and traffic light systems to achieve the desired cap level on grants.



**Annex Table 1 : Financing Terms Using World Bank CPIA groupings - (3 lights system)**

Countries	NPV/GDP	NPV/EXP	DS/EXP	Share of grants	
				Pure Volume Approach <sup>1</sup>	Modified Volume Approach <sup>2</sup>
<b>Strong policy: CPIA &gt;= 3.75</b>					
1 Cape Verde	42.0	155.3	12.7	0%	0%
2 Uganda	33.1	288.4	10.2	50%	45%
3 Tanzania	23.1	156.2	3.5	0%	0%
4 Mauritania	79.9	213.2	7.5	100%	100%
<b>Medium policy : 3.25 &lt; CPIA &lt; 3.75</b>					
1 Senegal	38.8	138.3	8.7	50%	45%
2 Burkina Faso	23.3	233.2	5.9	50%	45%
3 Ghana	41.0	101.1	5.8	0%	0%
4 Madagascar	26.8	136.6	5.6	0%	0%
5 Benin	29.6	145.4	5.6	0%	0%
6 Mali	43.4	178.6	8.4	100%	100%
7 Rwanda	39.7	540.6	17.3	100%	100%
8 Kenya	37.0	153.4	15.5	50%	45%
9 Lesotho	59.2	130.7	20.3	100%	100%
10 Cameroon	53.4	184.0	13.6	100%	100%
11 Malawi	46.6	175.7	7.3	100%	100%
12 Zambia	116.3	423.1	30.5	100%	100%
13 Mozambique	34.5	74.6	2.8	0%	0%
14 Ethiopia	35.1	216.2	11.4	100%	100%
<b>Poor Policy : CPIA &lt;= 3.25</b>					
1 Gambia, The	76.0	104.8	6.8	100%	100%
2 Niger	26.6	176.1	11.2	100%	100%
3 Chad	31.6	217.4	10.3	100%	100%
4 Guinea	45.1	176.2	16.7	100%	100%
5 Sierra Leone	90.8	771.5	24.8	100%	100%
6 Cote d'Ivoire	80.4	210.9	18.6	100%	100%
7 Djibouti	37.0	98.3	5.4	100%	100%
8 Eritrea	52.6	253.0	7.6	100%	100%
9 Congo, D.R.	147.3	818.9	90.3	100%	100%
10 Congo, Rep.	162.1	201.3	1.0	100%	100%
11 Burundi	104.4	1324.8	41.1	100%	100%
12 Guinea-Bissau	211.3	735.7	23.9	100%	100%
13 Comoros	75.0	567.0	14.2	100%	100%
14 Sao Tome and Principe	223.4	681.2	37.0	100%	100%
15 Togo	84.1	263.6	3.0	100%	100%
16 Sudan	117.4	857.3	1.3	100%	100%
17 CAR	71.2	704.2	0.8	100%	100%
18 Angola	86.1	131.3	11.6	100%	100%
19 Liberia	438.7	1765.7	0.6	100%	100%
20 Somalia	n.a	n.a	n.a	100%	100%
<b>Blend Countries</b>					
1 Nigeria	72.3	153.3	7.3	0%	0%
2 Zimbabwe	47.1	194.0	2.9	0%	0%
<b>All ADF-eligible Countries</b>				<b>58.9%</b>	<b>53.8%</b>

<sup>1</sup> 'Pure' Volume Approach (no discount)

<sup>2</sup> 'Modified' Volume Approach ( upfront 20% Discount on grants); 6.8% is reallocated to all countries using the traffic light system.

Annex Table 2 : Financing Terms Using ADB CPIA groupings - (3 lights system)

Countries	NPV/GDP	NPV/EXP	DS/EXP	Share of grants	
				Pure Volume Approach <sup>1</sup>	Modified Volume Approach <sup>2</sup>
<b>Strong policy: CPIA &gt;= 4.0</b>					
1 Benin	29.6	145.4	5.6	0%	0%
2 Ghana	41.0	101.1	5.8	0%	0%
3 Mauritania	79.9	213.2	7.5	100%	100%
4 Senegal	38.8	138.3	8.7	0%	0%
5 Uganda	33.1	288.4	10.2	50%	45%
6 Burkina Faso	23.3	233.2	5.9	0%	0%
7 Cape Verde	42.0	155.3	12.7	0%	0%
8 Mali	43.4	178.6	8.4	0%	0%
9 Tanzania	23.1	156.2	3.5	0%	0%
<b>Medium policy : 3.5 &lt; CPIA &lt; 4</b>					
1 Rwanda	39.7	540.6	17.3	100%	100%
2 Zambia	116.3	423.1	30.5	100%	100%
3 Cameroon	53.4	184.0	13.6	100%	100%
4 Lesotho	59.2	130.7	20.3	100%	100%
5 Kenya	37.0	153.4	15.5	50%	45%
6 Chad	31.6	217.4	10.3	100%	100%
7 Madagascar	26.8	136.6	5.6	0%	0%
8 Mozambique	34.5	74.6	2.8	0%	0%
9 Ethiopia	35.1	216.2	11.4	100%	100%
10 Niger	26.6	176.1	11.2	50%	45%
<b>Poor Policy : CPIA &lt; 3.5</b>					
1 Malawi	46.6	175.7	7.3	100%	100%
2 Gambia, The	76.0	104.8	6.8	100%	100%
3 Sao Tome and Principe	223.4	681.2	37.0	100%	100%
4 Congo, D.R.	147.3	818.9	90.3	100%	100%
5 Sierra Leone	90.8	771.5	24.8	100%	100%
6 Guinea	45.1	176.2	16.7	100%	100%
7 Burundi	104.4	1324.8	41.1	100%	100%
8 Djibouti	37.0	98.3	5.4	100%	100%
9 Eritrea	52.6	253.0	7.6	100%	100%
10 Congo, Rep.	162.1	201.3	1.0	100%	100%
11 Guinea-Bissau	211.3	735.7	23.9	100%	100%
12 Angola	86.1	131.3	11.6	100%	100%
13 Togo	84.1	263.6	3.0	100%	100%
14 Sudan	117.4	857.3	1.3	100%	100%
15 Cote d'Ivoire	80.4	210.9	18.6	100%	100%
16 Comoros	75.0	567.0	14.2	100%	100%
17 CAR	71.2	704.2	0.8	100%	100%
18 Liberia	438.7	1765.7	0.6	100%	100%
19 Somalia	n.a	n.a	n.a	100%	100%
<b>Blend Countries</b>					
1 Nigeria	72.3	153.3	7.3	0%	0%
2 Zimbabwe	47.1	194.0	2.9	0%	0%
<b>All ADF-eligible Countries</b>				<b>49.0%</b>	<b>43.8%</b>

<sup>1</sup> Pure' Volume Approach (no discount)<sup>2</sup> 'Modified' Volume Approach ( upfront 20% Discount on grants); 6.8% is reallocated to all countries using the traffic light system.

Annex Table 3 : ADF-X Financing Terms Using World Bank CPIA groupings - (5 lights system)

Countries	NPV/GDP	NPV/EXP	DS/EXP	Share of grants	
				Pure Volume Approach <sup>1</sup>	Modified Volume Approach <sup>2</sup>
<b>Strong policy: CPIA &gt;= 3.75</b>					
1 Cape Verde	42.0	155.3	12.7	25%	21%
2 Uganda	33.1	288.4	10.2	50%	45%
3 Tanzania	23.1	156.2	3.5	0%	0%
4 Mauritania	79.9	213.2	7.5	100%	100%
<b>Medium policy : 3.25 &lt; CPIA &lt; 3.75</b>					
1 Senegal	38.8	138.3	8.7	50%	45%
2 Burkina Faso	23.3	233.2	5.9	50%	45%
3 Ghana	41.0	101.1	5.8	25%	21%
4 Madagascar	26.8	136.6	5.6	25%	21%
5 Benin	29.6	145.4	5.6	25%	21%
6 Mali	43.4	178.6	8.4	75%	71%
7 Rwanda	39.7	540.6	17.3	100%	100%
8 Kenya	37.0	153.4	15.5	50%	45%
9 Lesotho	59.2	130.7	20.3	75%	71%
10 Cameroon	53.4	184.0	13.6	100%	100%
11 Malawi	46.6	175.7	7.3	75%	71%
12 Zambia	116.3	423.1	30.5	100%	100%
13 Mozambique	34.5	74.6	2.8	0%	0%
14 Ethiopia	35.1	216.2	11.4	75%	71%
<b>Poor Policy : CPIA &lt;= 3.25</b>					
1 Gambia, The	76.0	104.8	6.8	100%	100%
2 Niger	26.6	176.1	11.2	100%	100%
3 Chad	31.6	217.4	10.3	100%	100%
4 Guinea	45.1	176.2	16.7	100%	100%
5 Sierra Leone	90.8	771.5	24.8	100%	100%
6 Cote d'Ivoire	80.4	210.9	18.6	100%	100%
7 Djibouti	37.0	98.3	5.4	75%	71%
8 Eritrea	52.6	253.0	7.6	100%	100%
9 Congo, D.R.	147.3	818.9	90.3	100%	100%
10 Congo, Rep.	162.1	201.3	1.0	100%	100%
11 Burundi	104.4	1324.8	41.1	100%	100%
12 Guinea-Bissau	211.3	735.7	23.9	100%	100%
13 Comoros	75.0	567.0	14.2	100%	100%
14 Sao Tome and Principe	223.4	681.2	37.0	100%	100%
15 Togo	84.1	263.6	3.0	100%	100%
16 Sudan	117.4	857.3	1.3	100%	100%
17 CAR	71.2	704.2	0.8	100%	100%
18 Angola	86.1	131.3	11.6	100%	100%
19 Liberia	438.7	1765.7	0.6	100%	100%
20 Somalia	n.a	n.a	n.a	100%	100%
<b>Blend Countries</b>					
1 Nigeria	72.3	153.3	7.3	0%	0%
2 Zimbabwe	47.1	194.0	2.9	0%	0%
<b>All ADF-eligible Countries</b>				<b>58.2%</b>	<b>53.0%</b>

<sup>1</sup> 'Pure' Volume Approach (no discount)<sup>2</sup> 'Modified' Volume Approach ( upfront 20% Discount on grants); 6.8% is reallocated to all countries using the traffic light system.

Annex Table 4 : ADF-X Financing Terms Using ADB CPIA groupings - (5 lights system)

Countries	NPV/GDP	NPV/EXP	DS/EXP	Share of grants	
				Pure Volume Approach <sup>1</sup>	Modified Volume Approach <sup>2</sup>
<b>Strong policy: CPIA &gt;= 4.0</b>					
1 Benin	29.6	145.4	5.6	0%	0%
2 Ghana	41.0	101.1	5.8	0%	0%
3 Mauritania	79.9	213.2	7.5	100%	100%
4 Senegal	38.8	138.3	8.7	0%	0%
5 Uganda	33.1	288.4	10.2	50%	45%
6 Burkina Faso	23.3	233.2	5.9	25%	21%
7 Cape Verde	42.0	155.3	12.7	25%	21%
8 Mali	43.4	178.6	8.4	25%	21%
9 Tanzania	23.1	156.2	3.5	0%	0%
<b>Medium policy : 3.5 &lt; CPIA &lt; 4</b>					
1 Rwanda	39.7	540.6	17.3	100%	100%
2 Zambia	116.3	423.1	30.5	100%	100%
3 Cameroon	53.4	184.0	13.6	100%	100%
4 Lesotho	59.2	130.7	20.3	75%	71%
5 Kenya	37.0	153.4	15.5	50%	45%
6 Chad	31.6	217.4	10.3	75%	71%
7 Madagascar	26.8	136.6	5.6	25%	21%
8 Mozambique	34.5	74.6	2.8	0%	0%
9 Ethiopia	35.1	216.2	11.4	75%	71%
10 Niger	26.6	176.1	11.2	50%	45%
<b>Poor Policy : CPIA &lt; 3.5</b>					
1 Malawi	46.6	175.7	7.3	100%	100%
2 Gambia, The	76.0	104.8	6.8	100%	100%
3 Sao Tome and Principe	223.4	681.2	37.0	100%	100%
4 Congo, D.R.	147.3	818.9	90.3	100%	100%
5 Sierra Leone	90.8	771.5	24.8	100%	100%
6 Guinea	45.1	176.2	16.7	100%	100%
7 Burundi	104.4	1324.8	41.1	100%	100%
8 Djibouti	37.0	98.3	5.4	75%	71%
9 Eritrea	52.6	253.0	7.6	100%	100%
10 Congo, Rep.	162.1	201.3	1.0	100%	100%
11 Guinea-Bissau	211.3	735.7	23.9	100%	100%
12 Angola	86.1	131.3	11.6	100%	100%
13 Togo	84.1	263.6	3.0	100%	100%
14 Sudan	117.4	857.3	1.3	100%	100%
15 Cote d'Ivoire	80.4	210.9	18.6	100%	100%
16 Comoros	75.0	567.0	14.2	100%	100%
17 CAR	71.2	704.2	0.8	100%	100%
18 Liberia	438.7	1765.7	0.6	100%	100%
19 Somalia	n.a	n.a	n.a	100%	100%
<b>Blend Countries</b>					
1 Nigeria	72.3	153.3	7.3	0%	0%
2 Zimbabwe	47.1	194.0	2.9	0%	0%
<b>All ADF-eligible Countries</b>				<b>49.4%</b>	<b>44.1%</b>

<sup>1</sup> 'Pure' Volume Approach (no discount)<sup>2</sup> 'Modified' Volume Approach ( upfront 20% Discount on grants); 6.8% is reallocated to all countries using the traffic light system.



# **AFRICAN DEVELOPMENT FUND**



ADF–X/CM.4/2004/02

## **ADF – X FINANCING FRAMEWORK**

Copenhagen, Denmark

**8<sup>th</sup> November 2004**

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## EXECUTIVE SUMMARY

1. During the third meeting on the tenth replenishment of the African Development Fund held in Tunis on 16 – 17 September 2004, Deputies discussed the need for a strong ADF to respond to the developmental challenges prevailing in Africa. Recognizing the importance of a sound financing framework to support this objective, this paper provides information on a range of standard replenishment financing issues and seeks the guidance of Deputies on a number of key parameters required for the implementation of ADF-X.
2. First, as was the case for both ADF-VIII and ADF-IX, the paper presents a standard 10-year encashment schedule that mirrors the projected disbursements from ADF-X. For accelerated or customized encashment calculations in ADF-X, a case is made for using currency-specific CIRR rates on June 30 2004 for credits of up to 5 years, adjusted downwards by 100 basis points. The use of currency-specific rates would better align the burden shares with the economic benefit obtained by accelerated encashment while the use of the adjusted CIRR rates as discount rates would better approximate the expected returns from investing the proceeds of accelerated encashment in government bonds in line with the Fund's conservative investment policies.
3. Second, the paper examines the financial impact of increasing grant allocations on the reflows to the Fund. Two options are presented to enable the Fund to offset the foregone income reflows. The first alternative is for State Participants to make additional contributions over the ADF-X encashment period equal to the present value of the foregone income reflows (the "Belgian compromise"). The second alternative is to compensate for the foregone income reflows by levying a fee on grants at each disbursement. Deputies are requested to provide guidance as to the preferred option. With respect to foregone repayments, the paper demonstrates that higher grant levels diminish the Fund's ability to meet future replenishment targets through internally generated resources.
4. Finally, to facilitate discussions on burden sharing, the paper presents a number of burden sharing tables using ADF-IX burden shares that correspond to the three replenishment levels discussed in the paper on ADF-X replenishment scenarios.



## **I INTRODUCTION**

1. Deputies discussed three replenishment scenarios during the third meeting on the tenth replenishment of the African Development Fund (ADF) held in Tunis on 16 – 17 September 2004. The three scenarios called for replenishment levels of UA 3,529 million, UA 3,936 million and UA 4,488 million representing increases of 30%, 45% and 60% respectively compared to the ADF-IX replenishment level. Deputies requested Management to examine the related financing issues, focusing on the first two replenishment scenarios. This paper responds to that request.
2. The paper begins by presenting a standard encashment schedule for ADF-X based on projected disbursement profiles and the Fund's operational liquidity policy. In the event that some State Participants opt for customized encashment schedules, the paper argues that the discount rates used henceforth should be currency specific rates based on Commercial Interest Reference Rates (CIRR), appropriately adjusted to reflect realizable yields on investments funded with the proceeds of accelerated encashment.
3. It then examines the possible alternatives for financing the forgone income for various levels of grant funding. The paper also assesses the impact of various levels of grant financing on the projected self-sufficiency of the Fund at the long-term planning horizon of ADF-XXV (2052).
4. Finally, as a starting point for discussions on ADF-X burden sharing, the paper presents burden sharing tables for the three replenishment scenarios, assuming that State Participants maintain their burden shares.

## **II ADF-X ENCASHMENT SCHEDULES**

### **Standard Encashment Schedule**

5. The ADF-X standard encashment schedule describes how contributions by State Participants to ADF-X will be converted into liquid resources. It is based on the agreed principle of mirroring the projected disbursement schedule of loan and grant commitments funded by ADF-X, while ensuring that the level of the Fund's liquid resources resulting from the encashment of ADF-X notes remains in line with the Fund's liquidity policy<sup>1</sup>.
6. The standard encashment schedule for ADF-X, was derived using the following specific assumptions:
  - Replenishment resources will be committed in three equal instalments during the period 2005-2007 and encashment will start in 2005.
  - 10% of loans and grants approved in one year are signed, become effective and start disbursing in the same year while the remaining 90% are signed, become effective and start disbursing the following year.

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<sup>1</sup> The policy paper (ADF/BD/WP/99/42/Rev.2) entitled "Revised ADF liquidity Policy" and approved by the Board in March 2000 requires year-end liquidity to be maintained at 62.5% of the projected disbursements for the following year.

- Disbursements will follow a 10-year combined historical disbursement profile for loans and grants contracted by ADF borrowing member countries; the specific allocation assumed, based on past trends, is 22.5% for policy-based loans, 70% for project loans and grants and 7.5% for institutional support and study grants.
  - The year-end level of liquidity for ADF-X encashments in any given year will be maintained at 62.5% of the following year's projected disbursements.
7. Table 1 below presents the ADF-X standard encashment schedule using the assumptions presented above and assuming a replenishment level of UA 4,000 million<sup>2</sup>. As can be observed, the bulk of the encashment of Donors promissory notes will occur during the period starting in year 3 and ending in year 7 when around 68% of the encashments is expected to occur.

**Table 1 Standard Encashment Schedule for a Replenishment of UA 4 billion**  
(Amounts in UA millions)

Year	Amount Approved	Signed Loans & Grants	Annual Disbursement		Year End Liquidity @ 62.5%	Encashment Schedule	
			(%)	Amount		Amount <sup>3</sup>	(%)
2005	1,333	133.33	0.43	17.33	120.00	137.33	3.43
2006	1,333	1,333.33	4.80	192.00	238.33	310.33	7.76
2007	1,333	1,333.33	9.53	381.33	360.00	503.00	12.58
2008		1,200.00	14.40	576.00	375.00	591.00	14.78
2009			15.00	600.00	370.00	595.00	14.88
2010			14.80	592.00	325.83	547.83	13.70
2011			13.03	521.33	274.17	469.67	11.74
2012			10.97	438.67	225.00	389.50	9.74
2013			9.00	360.00	200.83	335.83	8.40
2014			8.03	321.33	-	120.50	3.01
Total	4,000.00	4,000.00	100.00	4,000.00		4,000.00	100.00

### Accelerated Encashment Schedules and Proposed Discount Rates

8. As for ADF-VIII and ADF-IX, State Participants in ADF-X may opt to accelerate the pace of encashment of their subscriptions; choosing a uniform encashment period shorter than the 10-year standard period or choosing a fully customized encashment schedule. The acceleration of encashment provides additional resources to the Fund in the form of income arising from investing excess liquidity not needed for immediate disbursement. For State Participants that opt for accelerated payments, the “extra credit” will be based on the proposed discount rate described below.
9. As described in Annex 1, Management is recommending the use of currency-specific discount rates derived using the Commercial Interest Reference Rate (CIRR) on June 30, 2004 for credits up to 5 years adjusted downward by 100 basis points. The benefits of this proposal are as follows:

<sup>2</sup> The encashment schedule in percentage terms does not depend on the replenishment level. The replenishment level of UA 4.0 billion used is only for illustrative purposes.

<sup>3</sup> The amount of encashment for any year equals the projected disbursements for that year plus the increase in liquidity during the year.

- A better alignment of the burden shares with the economic value arising from accelerated encashments.
- A closer alignment of the time period implied by CIRR for credits up to 5 years with the maximum additional time period during which the Fund has the potential to generate returns from accelerated encashments.
- A better approximation of the expected returns of the Fund's invested liquidity, which is invested mainly in government securities, reflecting the conservative investment strategy.

10. Table 2 below presents the currency-specific discount rates obtained on the foregoing basis. Sample accelerated encashment schedules for the SDR and its component currencies as well as the Swiss Franc are presented in Annex 2.

**Table 2** **Proposed Discount Rates**

<b>Currency</b>	<b>CIRR*</b>	<b>Adjusted CIRR**</b>
Canadian Dollar	4.55%	3.55%
Danish Krone	4.13%	3.13%
Japanese Yen	1.27%	0.27%
Korean Won	5.75%	4.75%
Norwegian Krone	5.13%	4.13%
Swedish Krona	4.50%	3.50%
Swiss Franc	2.61%	1.61%
UK Pound	5.94%	4.94%
US Dollar	4.10%	3.10%
EURO	3.99%	2.99%
SDR***	3.91%	2.91%

\* For credits up to 5 years, as of June 30, 2004; source: [www.oecd.org](http://www.oecd.org)

\*\*CIRR less 1%

\*\*\* Computed as the weighted average of the CIRR of the constituent currencies of the SDR

### III GRANT FINANCING IN ADF-X

#### Foregone Reflows From Increased Grants

11. As agreed by Deputies, the final grant allocation level under ADF-X will be linked to the outcome of the ongoing exercise at the World Bank and IMF aimed at developing a Debt Sustainability Framework for low-income countries<sup>4</sup>. Based on preliminary consultations with the World Bank and IMF on the likely range of outcomes of the exercise, three indicative grant allocation levels are considered in this paper: 30%, 40% and 50%. Further, based on the discussions at the Tunis meeting of ADF-X Consultations, two replenishment level scenarios are considered in this paper: the base case and the medium case scenarios with 30% and 45% respective nominal increases over the ADF-IX replenishment level<sup>5</sup>.
12. Table 3 below summarizes the present value of the projected foregone income for the 6 possible scenarios, discounted to the beginning of 2005<sup>6</sup>. For consistency, the marginal impact of higher allocations to grants on the foregone reflows of both income and principal is measured relative to the 7.5% level of grants that was applicable until ADF-VIII. As can be observed, increasing the level of grants in ADF-X under these scenarios would erode future reflows to the Fund between UA 110 million and UA 231 million in 2005 present value terms. An additional table showing the estimates of foregone principal as well as the foregone total reflows is presented in Annex 3.

**Table 3** **Present Value of Foregone Income**  
(Amounts in UA million)

Grant Level	Replenishment Scenario	
	Base Case	Medium Case
30%	109.70	122.36
40%	158.46	176.74
50%	207.21	231.12

#### Offsetting Foregone Reflows

13. Two possible alternatives to enable the Fund to offset the foregone income due to an increased percentage of grant funding in ADF-X are presented below:

##### Option 1: Additional Donor Contributions During ADF-X Encashment Period

14. In this option, State Participants would make additional contributions over the ADF-X encashment period, such that the present value of the additional payments is equal to the present value of the foregone income reflows. Normally these additional contributions would be spread out to mirror the standard encashment profile for

<sup>4</sup> Ref: ADF-X/CM.3/2004/02 entitled 'The Emerging Debt Sustainability Framework and Its Possible Implications for ADF-X Financing Terms'.

<sup>5</sup> The replenishment levels amount to UA 3.53 billion for the base case and UA 3.94 billion for the medium case scenarios.

<sup>6</sup> The discount rate used for calculating the present value of forgone income is the adjusted CIRR for SDR as of June 30, 2004, which is 2.91% as shown in Table 2.

ADF-X. For State Participants choosing accelerated encashments, the additional contributions would be adapted to the chosen profile in equivalent present value terms.

15. Table 4 below summarizes the aggregate nominal additional contributions required to offset the present values of foregone income reflows for the various scenarios. While the additional contributions of individual State Participants under this mechanism would be based on ADF-X burden shares, for illustrative purposes an estimate of individual State Participant contributions using the ADF-IX burden shares is presented in Annex 4.

**Table 4**                      **Nominal Additional Contributions to Offset Foregone Income**  
(Amounts in UA million)

	<b>Replenishment Scenario</b>	
<b>Grant Level</b>	<b>Base Case</b>	<b>Medium Case</b>
30%	124.12	138.44
40%	179.29	199.97
50%	234.40	261.50

#### Option 2: Levy of Fee on Grants

16. A second possible option for offsetting the cost of foregone income reflows would be to levy a standard fee on grant recipients such that the present value of projected fee receipts is equal to the present value of the foregone income reflows<sup>7</sup>. In such a scheme the grant fee would be deducted at each disbursement.
17. Table 5 below shows the level of fees that would be required for the 3 different grant allocations discussed in this paper. These estimates are sensitive to the projected disbursement profile of grants but are independent of the replenishment level. A more detailed analysis of the computation of the grant fee is presented in Annex 5.

**Table 5**                      **Grant Fee Required to Offset Foregone Income**

<b>Grant Level</b>	<b>Grant Fee</b>
30%	11.94%
40%	12.93%
50%	13.53%

#### **Financial Impact Of Grants In Future Replenishments**

18. Although the principal focus of this section is to determine Deputies' preferred modality for offsetting the financial consequence of increased allocation to grants in ADF-X, it is instructive to consider the long-term impact of increased grant financing in future replenishments on the Fund. Given its role as a conduit for channeling donor development aid in an effective manner, the conventional

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<sup>7</sup> A similar proposal is under consideration in the ongoing IDA-XIV replenishment negotiations, where a fee of 9% has been proposed.

measures of financial strength may not be very meaningful for the Fund. Nevertheless, the extent to which the Fund is able to generate part of its targeted replenishment level from internal resources is a useful yardstick that captures the long-run self-sufficiency of the Fund<sup>8</sup>.

19. Table 6 below presents the estimated contribution of loan repayments<sup>9</sup> to the Fund's replenishment resources at the Fund's planning horizon of 2050–52 (ADF-XXV) for 4 different levels of grant allocations. These estimates assume a steady state level of UA 4 billion for all future replenishments. As can be observed, increasing the allocation to grants to 50% from 7.5% would reduce the contribution of internally generated resources in the ADF-XXV replenishment to 41% from 75%. For comparison, the contribution from loan repayments towards the ADF-X replenishment is expected to be only about 7%. A more detailed analysis of loan repayments is presented in Annex 6.

**Table 6** Grant levels and Future Self-sufficiency

Grant Level	Contribution from Loan Repayments in ADF-XXV (2050-52)
7.5%	75%
30%	57%
40%	49%
50%	41%

20. An alternative way to consider the impact of increasing the level of grants on the self-sufficiency of the Fund is to look at the effect on the time it takes the Fund to reach a given level of internally generated resources. For example, an increase in the grant allocation from 7.5% to 50% would increase the time taken to reach the 40% self-sufficiency level by about 18 years i.e. pushed back from the ADF-XVIII period to the ADF-XXIV period.

<sup>8</sup> It is important to note that the usefulness of this yardstick is inversely related to how far into the future it is measured, as the long-run objective of aid-recipient countries, of graduating to resource self-sufficiency, dilutes the necessity of the Fund achieving self-sufficiency.

<sup>9</sup> Principal reflows (as opposed to interest reflows) are the primary source of internally generated resources over the long run.

## IV BURDEN SHARING

21. During the first meeting on the tenth replenishment of the Fund in Geneva, Deputies agreed that the six-month reference period for the determination of ADF-X currency exchange rates would run from 1 April to 30 September 2004. These exchange rates have been used in preparing the simulations presented in annex 7 for the three possible replenishment scenarios proposed by Management (30%, 45% and 65% increases). It has also been assumed that State Participants would maintain their ADF-IX burden shares, which sum up to 78.41%, leaving an unallocated (structural) gap of 21.59%.
22. Total replenishment resources in each of the three scenarios are composed of Donor resources and internally generated resources. Table 7 below summarizes the key elements of the three replenishment scenarios discussed at the Tunis meeting.

**Table 7 Major Resource Components of Replenishment Scenarios**  
(Amounts in UA millions)

Sources	30% Increase	45% Increase	65% Increase
Donor Contributions (1)	2,350	2669	3,095
Structural Gap (2)	647	735	852
ADF Replenishment Level (1+2)	2,997	3,404	3,947
Internally Generated Resources	532	532	532
<b>Total Resources</b>	<b>3,529</b>	<b>3,936</b>	<b>4,479</b>

23. The internally generated resources are primarily composed of loan repayments and loan cancellations. The figure of UA 532 million<sup>10</sup> is computed as shown in Table 8.

**Table 8 Internally Generated Resources**  
(Amounts in UA millions)

	2005	2006	2007	Total
ADB Net Income Allocation	10	10	10	30
ADF Net Income/(Loss)	(5)	(7)	(8)	(20)
Loan Repayments	89	93	103	285
Loan Cancellations	79	79	79	237
<b>Total Internal Resources</b>	<b>173</b>	<b>175</b>	<b>185</b>	<b>532</b>

### Donor Contributions and the Structural Gap

24. The structural gap is defined as the difference between the required Donor contributions to meet the replenishment target and the effective subscriptions of Donors. Table 9 below shows the evolution of the gap over the previous four replenishments<sup>11</sup>. As can be observed, the structural gap has remained around 20%

<sup>10</sup> The composition of the projected internally generated resources differs from that reported previously mainly due to an increase in projected loan cancellations and a reduction in the contribution of ADF net income attributable to additional administrative expenses related to the "New Accord".

<sup>11</sup> The gap for ADF-IX was eventually reduced to 19.35% through voluntary contributions and the allocation of the proceeds generated by accelerated encashments.

since ADF-VII. This is substantially higher than IDA-12, which had an unfilled gap of about 6.9% and AsDF-8, which had an unfilled gap of about 4.3%.

**Table 9** **Evolution of the Structural Gap**  
(Percentage of Replenishment)

<b>Replenishment</b>	<b>Gap</b>
ADF-VI	3.9%
ADF-VII	20.5%
ADF-VIII	20.2%
ADF-IX	21.3%

25. To maximize the Fund's development impact, it would be desirable to reduce the ADF-X gap to the extent possible. As in ADF-IX, mechanisms such as voluntary contributions by Donors and supplemental contributions generated through accelerated encashment of subscriptions could be used to fill the gap.


## **V CONCLUSIONS**

26. This paper has examined a number of issues related to the financing framework for ADF-X including the encashment schedule for donor subscriptions, the discount rates to be used for accelerated and customized encashment schedules, options for compensating for foregone income reflows due to increased grant financing, and burden sharing arrangements. Deputies would have to conclude on the above issues before the end of ADF-X replenishment negotiations.
27. In the light of the above, Deputies are requested to provide guidance on the following:
- (i) The ADF-X encashment period (2005 – 2014).
  - (ii) The discount rates to be used for accelerated or customized encashment schedules (adjusted currency specific CIRR).
  - (iii) The preferred option for offsetting foregone income reflows (additional donor contributions or the levying of a fee on grants at disbursement).



## **ANNEX 1**

### **DISCOUNT RATE FOR ACCELERATED ENCASHMENT**

1. As part of the ADF-IX consultations, State Participants approved the discount rate to be used to determine the amount to be credited to State Participants who opt for accelerated encashment<sup>12</sup>. This annex describes the proposed refinements to the basis for determining the ADF-X discount rate, with the objective of aligning the credit for acceleration to the expected economic benefit associated with it. The note benefits from a related proposal endorsed by State Participants in the Ninth Replenishment of the Asian Development Fund, concluded in Seoul in May 2004. 
2. For ADF-IX, the composite SDR CIRR prevailing on June 30, 2001 for credits with maturities of more than 8.5 years, at 5.5%, was approved as the discount rate for accelerated encashment calculations for all currencies. Two aspects of the discount rate basis may benefit from further refinements.
3. First, given the significant difference in interest rates applicable for different currencies, the use of a single discount rate for all currencies reduces the correlation between the economic benefit obtained by accelerating encashments and the incremental burden share credited to the State Participant. Second, using the CIRR for credits with maturities of more than 8.5 years overstates the implied additional period of time that the Fund has to derive investment returns from the accelerated encashments<sup>13</sup>. Furthermore, since the CIRR has an in-built spread of 100 basis points over the relevant yields for government securities, a suitable downward adjustment is required to align the discount rate with the expected rate of return of the Fund's investments.
4. To address the foregoing issues, Management proposes the currency-specific CIRR on June 30, 2004 for credits up to 5 years, adjusted downwards by 100 basis points, as the discount rate for accelerated encashments. The proposal has the following benefits:
  - The use of currency-specific discount rates will result in better aligning the burden shares with the economic benefit obtained by accelerated encashments.
  - The time period implied by CIRR for credits up to 5 years is more closely aligned to the maximum additional time period over which the Fund is able to generate returns from accelerated encashments.
  - The downward adjustment of 100 basis points to the CIRR results in a discount rate that approximates better the expected returns from the Fund's investments, a large proportion of which is invested in government securities in line with the Fund's conservative investment policies.

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<sup>12</sup> 'Note on the Discount Rate for NPV Calculations Relating to ADF-IX Replenishment',

<sup>13</sup> A standard 10-year encashment period implies an average maturity of 5 years; therefore, the additional time period for which the Fund enjoys returns from accelerated encashments is 5 years at the most.

## ANNEX 2

### SAMPLE ACCELERATED ENCASHMENT SCHEDULES

- The tables below present the impact of accelerated encashment on the burden-sharing credit for a variety of possible alternatives and for the principal contribution currencies. For each table, the discount rate used is the currency-specific CIRR rate less 1.0%. The “credit” versus the standard encashment schedule expressed as a percentage of the face value is presented in the last row.

#### Sample Accelerated Encashment Schedules for SDR

Year of Encashment	Assumed Discount Factor	Standard Encashment Schedule	Accelerated Encashment Schedule 1	Accelerated Encashment Schedule 2	Accelerated Encashment Schedule 3	Accelerated Encashment Schedule 4	Accelerated Encashment Schedule 5	Accelerated Encashment Schedule 6
2005	1	3.43	100.00	33.33	25.00	20.00	16.67	12.5
2006	0.972	7.76		33.33	25.00	20.00	16.67	12.5
2007	0.944	12.58		33.33	25.00	20.00	16.67	12.5
2008	0.918	14.78			25.00	20.00	16.67	12.5
2009	0.892	14.88				20.00	16.67	12.5
2010	0.866	13.70					16.67	12.5
2011	0.842	11.74						12.5
2012	0.818	9.74						12.5
2013	0.795	8.40						
2014	0.772	3.01						
Total		100	100	100	100	100	100	100
Discount Rate		0.029	0.029	0.029	0.029	0.029	0.029	0.029
NPV Equivalent (%)		88.38	100.00	97.20	95.84	94.50	93.19	90.64
Credit as % of face value			11.62	9.07	7.78	6.47	5.16	2.49

#### Sample Accelerated Encashment Schedules for USD

Year of Encashment	Assumed Discount Factor	Standard Encashment Schedule	Accelerated Encashment Schedule 1	Accelerated Encashment Schedule 2	Accelerated Encashment Schedule 3	Accelerated Encashment Schedule 4	Accelerated Encashment Schedule 5	Accelerated Encashment Schedule 6
2005	1	3.43	100.00	33.33	25.00	20.00	16.67	12.5
2006	0.970	7.76		33.33	25.00	20.00	16.67	12.5
2007	0.941	12.58		33.33	25.00	20.00	16.67	12.5
2008	0.912	14.78			25.00	20.00	16.67	12.5
2009	0.885	14.88				20.00	16.67	12.5
2010	0.858	13.70					16.67	12.5
2011	0.833	11.74						12.5
2012	0.808	9.74						12.5
2013	0.783	8.40						
2014	0.760	3.01						
Total		100	100	100	100	100	100	100
Discount Rate		0.031	0.031	0.031	0.031	0.031	0.031	0.031
NPV Equivalent (%)		87.70	100.00	97.02	95.58	94.16	92.78	90.09
Credit as % of face value			12.30	9.61	8.25	6.87	5.48	2.65

### **Sample Accelerated Encashment Schedules for EUR**

Year of Encashment	Assumed Discount Factor	Standard Encashment Schedule	Accelerated Encashment Schedule 1	Accelerated Encashment Schedule 2	Accelerated Encashment Schedule 3	Accelerated Encashment Schedule 4	Accelerated Encashment Schedule 5	Accelerated Encashment Schedule 6
2005	1	3.43	100.00	33.33	25.00	20.00	16.67	12.5
2006	0.971	7.76		33.33	25.00	20.00	16.67	12.5
2007	0.943	12.58		33.33	25.00	20.00	16.67	12.5
2008	0.915	14.78			25.00	20.00	16.67	12.5
2009	0.889	14.88				20.00	16.67	12.5
2010	0.863	13.70					16.67	12.5
2011	0.838	11.74						12.5
2012	0.814	9.74						12.5
2013	0.790	8.40						
2014	0.767	3.01						
Total		100	100	100	100	100	100	100
Discount Rate		0.030	0.030	0.030	0.030	0.030	0.030	0.030
NPV Equivalent (%)		88.09	100.00	97.12	95.73	94.36	93.02	90.41
Credit as % of face value			11.91	9.30	7.98	6.64	5.29	2.56

### **Sample Accelerated Encashment Schedules for GBP**

Year of Encashment	Assumed Discount Factor	Standard Encashment Schedule	Accelerated Encashment Schedule 1	Accelerated Encashment Schedule 2	Accelerated Encashment Schedule 3	Accelerated Encashment Schedule 4	Accelerated Encashment Schedule 5	Accelerated Encashment Schedule 6
2005	1	3.43	100.00	33.33	25.00	20.00	16.67	12.5
2006	0.953	7.76		33.33	25.00	20.00	16.67	12.5
2007	0.908	12.58		33.33	25.00	20.00	16.67	12.5
2008	0.865	14.78			25.00	20.00	16.67	12.5
2009	0.825	14.88				20.00	16.67	12.5
2010	0.786	13.70					16.67	12.5
2011	0.749	11.74						12.5
2012	0.714	9.74						12.5
2013	0.680	8.40						
2014	0.648	3.01						
Total		100	100	100	100	100	100	100
Discount Rate		0.049	0.049	0.049	0.049	0.049	0.049	0.049
NPV Equivalent (%)		81.46	100.00	95.37	93.16	91.02	88.94	84.99
Credit as % of face value			18.54	14.58	12.56	10.50	8.42	4.15

### **Sample Accelerated Encashment Schedules for JPY**

Year of Encashment	Assumed Discount Factor	Standard Encashment Schedule	Accelerated Encashment Schedule 1	Accelerated Encashment Schedule 2	Accelerated Encashment Schedule 3	Accelerated Encashment Schedule 4	Accelerated Encashment Schedule 5	Accelerated Encashment Schedule 6
2005	1	3.43	100.00	33.33	25.00	20.00	16.67	12.5
2006	0.997	7.76		33.33	25.00	20.00	16.67	12.5
2007	0.995	12.58		33.33	25.00	20.00	16.67	12.5
2008	0.992	14.78			25.00	20.00	16.67	12.5
2009	0.989	14.88				20.00	16.67	12.5
2010	0.987	13.70					16.67	12.5
2011	0.984	11.74						12.5
2012	0.981	9.74						12.5
2013	0.979	8.40						
2014	0.976	3.01						
Total		100	100	100	100	100	100	100
Discount Rate		0.003	0.003	0.003	0.003	0.003	0.003	0.003
NPV Equivalent (%)		98.83	100.00	99.73	99.60	99.46	99.33	99.06
Credit as % of face value			1.17	0.91	0.77	0.64	0.51	0.24

### **Sample Customized Encashment Schedules for CHF**

Year of Encashment	Assumed Discount Factor	Standard Encashment Schedule	Accelerated Encashment Schedule 1	Customized Encashment Schedule 2	Customized Encashment Schedule 3	Customized Encashment Schedule 4
2005	1	3.43	100.00			
2006	0.984	7.76				12.94
2007	0.969	12.58			17.71	12.94
2008	0.953	14.78		28.00	17.71	12.94
2009	0.938	14.88		28.00	17.71	12.94
2010	0.923	13.70		28.00	17.71	12.94
2011	0.909	11.74		16.01	17.71	12.94
2012	0.894	9.74			11.43	12.94
2013	0.880	8.40				9.41
2014	0.866	3.01				
Total		100	100	100	100	100
Discount Rate		0.016	0.016	0.016	0.016	0.016
NPV Equivalent (%)		93.31	100.00	93.35	93.33	93.31
Credit as % of face value			6.69	0.04	0.03	0.00

### **ANNEX 3**

#### **FOREGONE PRINCIPAL AND INCOME REFLOWS**

1. The table below summarizes the present values, in 2005 terms, of foregone principal reflows as well as the foregone total reflows (principal plus income reflows) for the 6 scenarios discussed in this paper.

**Present Value of Foregone Reflows**  
(Amounts in UA million)

<b>Replenishment Scenario</b>				
	<b><i>Base Case</i></b>		<b><i>Medium Case</i></b>	
<b>Grant Level</b>	<b>Principal Reflows</b>	<b>Total Reflows</b>	<b>Principal Reflows</b>	<b>Total Reflows</b>
30%	309.23	418.93	344.91	467.27
40%	446.66	605.12	498.20	674.94
50%	584.09	791.31	651.49	882.62

## ANNEX 4

### ADDITIONAL DONOR CONTRIBUTIONS - OPTION 1

- The table below presents estimates of the additional pledges under Option 1 required from State Participants to offset the foregone income due to increased grants. These additional pledges are computed for the different scenarios discussed in this paper using the normalized ADF-IX burden shares<sup>14</sup>. The amounts shown in the table assume the same payment profile as the proposed standard encashment profile.

#### Additional Contributions To Offset Increased Grant Financing In ADF-X (Amounts in UA million)

State Participant	ADF-IX Share	Normalized Share	Base Case (UA 3,529 million)			Medium Case (UA 3,936 million)		
			Grant 30%	Grant 40%	Grant 50%	Grant 30%	Grant 40%	Grant 50%
AUSTRIA	0.980%	1.250%	1.55	2.24	2.93	1.73	2.50	3.27
BELGIUM	1.650%	2.104%	2.61	3.77	4.93	2.91	4.21	5.50
BRAZIL	0.334%	0.426%	0.53	0.76	1.00	0.59	0.85	1.11
CANADA	4.500%	5.739%	7.12	10.29	13.45	7.95	11.48	15.01
CHINA	1.642%	2.094%	2.60	3.75	4.91	2.90	4.19	5.48
DENMARK	3.000%	3.826%	4.75	6.86	8.97	5.30	7.65	10.00
FINLAND	1.500%	1.913%	2.37	3.43	4.48	2.65	3.83	5.00
FRANCE	7.328%	9.345%	11.60	16.76	21.91	12.94	18.69	24.44
GERMANY	8.354%	10.655%	13.22	19.10	24.98	14.75	21.31	27.86
INDIA	0.174%	0.222%	0.28	0.40	0.52	0.31	0.44	0.58
ITALY	4.300%	5.484%	6.81	9.83	12.86	7.59	10.97	14.34
JAPAN	8.817%	11.245%	13.96	20.16	26.36	15.57	22.49	29.40
KOREA	0.636%	0.811%	1.01	1.45	1.90	1.12	1.62	2.12
KUWAIT	0.336%	0.429%	0.53	0.77	1.00	0.59	0.86	1.12
NETHERLANDS	3.700%	4.719%	5.86	8.46	11.06	6.53	9.44	12.34
NORWAY	3.540%	4.515%	5.60	8.09	10.58	6.25	9.03	11.81
PORTUGAL	0.642%	0.819%	1.02	1.47	1.92	1.13	1.64	2.14
SAUDI ARABIA	0.540%	0.689%	0.85	1.23	1.61	0.95	1.38	1.80
SOUTH AFRICA	0.118%	0.150%	0.19	0.27	0.35	0.21	0.30	0.39
SPAIN	2.000%	2.551%	3.17	4.57	5.98	3.53	5.10	6.67
SWEDEN	4.000%	5.101%	6.33	9.15	11.96	7.06	10.20	13.34
SWITZERLAND	3.000%	3.826%	4.75	6.86	8.97	5.30	7.65	10.00
U.K.	5.500%	7.014%	8.71	12.58	16.44	9.71	14.03	18.34
U.S.A	11.819%	15.073%	18.71	27.02	35.34	20.87	30.14	39.41
<b>TOTAL</b>	<b>78.41%</b>	<b>100.00%</b>	<b>124.12</b>	<b>179.29</b>	<b>234.44</b>	<b>138.44</b>	<b>199.97</b>	<b>261.50</b>

<sup>14</sup> To address the financing gap in the ADF-IX replenishment, burden shares have been normalized to aggregate to 100%.

## ANNEX 5

### ESTABLISHING A FEE FOR GRANTS - OPTION 2

- The following three tables show that a levy of an appropriate fee<sup>15</sup> on grant financing can offset the foregone income reflows due to increased share of grants in ADF-X. While the fee to be charged is a function of the grant level and is independent of the replenishment amount, for illustrative purposes, the medium case replenishment of UA 3.93 billion is used in the tables below. The disbursement of grants is assumed to follow a profile similar to that of loans, and the discount rate used to estimate the present value of the fee receipts is 2.91%, the adjusted CIRR for SDR as of June 30, 2004. As can be observed, the sum of the discounted fee receipts for each of the grant level equals the present value of the foregone income reflows for the medium case scenario shown previously in Table 3.

**Scenario : Grant level of 30% with Fee rate of 11.94%**

Year	Disbursement (1)	Fee Receipts 2=(1*Fee Rate)	Discount Factor (3)	Discounted Fee Receipts (2*3)
2005	5.12	0.61	1.00	0.61
2006	56.68	6.77	0.97	6.57
2007	112.57	13.44	0.94	12.69
2008	170.04	20.30	0.92	18.62
2009	177.12	21.14	0.89	18.85
2010	174.76	20.86	0.87	18.07
2011	153.90	18.37	0.84	15.47
2012	129.49	15.46	0.82	12.65
2013	106.27	12.69	0.79	10.08
2014	94.86	11.32	0.77	8.75
<b>Total</b>	<b>1180.80</b>	<b>140.95</b>		<b>122.36</b>

**Scenario : Grant level of 40% with Fee rate of 12.93%**

Year	Disbursement (1)	Fee Receipts 2=(1*Fee Rate)	Discount Factor (3)	Discounted Fee Receipts (2*3)
2005	6.82	0.88	1.00	0.88
2006	75.57	9.77	0.97	9.50
2007	150.09	19.41	0.94	18.33
2008	226.71	29.32	0.92	26.90
2009	236.16	30.54	0.89	27.23
2010	233.01	30.13	0.87	26.11
2011	205.20	26.53	0.84	22.34
2012	172.66	22.33	0.82	18.27
2013	141.70	18.32	0.79	14.57
2014	126.48	16.35	0.77	12.63
<b>Total</b>	<b>1574.40</b>	<b>203.59</b>		<b>176.74</b>

<sup>15</sup> The correct level of fee to be charged has been determined using an iterative process that results in the present value of the fee receipts equaling the present value of foregone income reflows.

**Scenario : Grant level of 50% with Fee rate of 13.53%**

Year	Disbursement (1)	Fee Receipts 2=(1*Fee Rate)	Discount Factor (3)	Discounted Fee Receipts (2*3)
2005	8.53	1.15	1.00	1.15
2006	94.46	12.78	0.97	12.42
2007	187.62	25.38	0.94	23.97
2008	283.39	38.34	0.92	35.18
2009	295.20	39.93	0.89	35.61
2010	291.26	39.40	0.87	34.14
2011	256.50	34.70	0.84	29.21
2012	215.82	29.20	0.82	23.88
2013	177.12	23.96	0.79	19.05
2014	158.10	21.39	0.77	16.52
<b>Total</b>	<b>1968.00</b>	<b>266.23</b>		<b>231.12</b>



## **ANNEX 6**

### **IMPACT OF INCREASED GRANTS IN FUTURE REPLENISHMENTS**

2. The table below presents the impact of increased share of grants in future replenishments on the loans repayments in future periods. The analysis assumes a constant replenishment level of UA 4 billion for illustrative purposes. The table shows the adverse impact of increased grant funding on the Fund's ability to generate internal resources (comprising primarily loan repayments) towards meeting its replenishment levels.

**Impact of Grants on Loan Reflows in Future Replenishments**  
(UA Millions)

Replenishment	Period	Grant Level			
		7.5%	30.0%	40.0%	50.0%
ADF-X	2005-07	286	286	286	286
ADF-XI	2008-10	364	364	364	364
ADF-XII	2011-13	482	482	482	482
ADF-XIII	2014-16	580	570	566	562
ADF-XIV	2017-19	712	680	665	651
ADF-XV	2020-22	867	811	786	761
ADF XVI	2023-25	1,045	957	918	879
ADF XVII	2026-28	1,289	1,136	1,068	1,000
ADF-VIII	2029-31	1,539	1,315	1,215	1,116
ADF-XIX	2032-34	1,776	1,480	1,349	1,218
ADF-XX	2035-37	1,987	1,620	1,457	1,294
ADF-XXI	2038-40	2,175	1,737	1,542	1,347
ADF-XXII	2041-43	2,280	1,771	1,544	1,318
ADF-XXIII	2044-46	2,504	1,923	1,665	1,407
ADF-XXIV	2047-49	2,766	2,114	1,825	1,535
ADF-XXV	2050-52	3,016	2,293	1,972	1,650

# **ANNEX 7**

**(Increase ADF-IX TOTAL RESOURCES by 30%)  
(Hausse de 30% sur les ressources totales du FAD-IX)**

## **SIMULATION OF SUBSCRIPTION TO ADF-X REPLENISHMENT SIMULATION DES SOUSCRIPTIONS POUR LA RECONSTITUTION DU FAD-X**

STATE PARTICIPANTS	BURDEN SHARE  REPARTITION DU FARDEAU	CONTRIBUTIONS IN LIA  CONTRIBUTIONS EN UC	UNITS OF OBLIGATION  DEWISE D'ENGAGEMENT	EXCHANGE RATE  TAUX DE CHANGE	AMOUNT SUBSCRIBED IN CURRENCY OF OBLIGATION  MONTANT A SOUSCRIRE EN DEWISE (A)	ADF-IX AMOUNT SUBSCRIBED IN CURRENCY OF OBLIGATION  MONTANT A SOUSCRIRE EN DEWISE (B)	% CHANGE IN CURRENCY OF OBLIGATION  COMPARAISON EN DEWISE PAR RAPPORT AU FAD-IX  (A)-(B)/B
1 ARGENTINA	0.000%		-				
2 AUSTRIA/AUTRICHE	0.980%	29,381,190	EUR	1.206338	35,443,646	33,448,249	5.97%
3 BELGIUM/BELGIQUE	1.850%	49,447,880	EUR	1.206338	59,650,833	56,292,625	5.97%
4 BRAZIL/BRESIL	0.334%	10,005,234	USD	1.463498	14,642,640	10,000,000	46.43%
5 CANADA	4.500%	134,857,800	CAD	1.952329	263,286,794	208,830,512	26.08%
6 CHINA/CHINE	1.642%	49,208,113	USD	1.463498	72,015,974	49,182,372	46.43%
7 DENMARK/DANEMARK	3.000%	89,905,200	DKK	8.971507	806,585,131	761,665,647	5.90%
8 FINLAND/FINLANDE	1.500%	44,952,600	EUR	1.206338	54,228,030	51,175,114	5.97%
9 FRANCE	7.328%	219,601,857	EUR	1.206338	264,914,065	250,000,000	5.97%
10 GERMANY/ALLEMAGNE	8.354%	250,368,911	EUR	1.206338	302,029,532	285,025,950	5.97%
11 GREECE/GRÈCE	0.174%	5,215,184	EUR	1.206338	6,279,016	5,970,000	4.04%
12 ITALY/ITALIE	4.300%	128,864,120	EUR	1.206338	155,453,685	146,701,993	5.97%
13 JAPAN/JAPON	8.817%	264,233,730	JPY	160.625842	42,442,765,293	32,217,476,000	31.74%
14 KOREA/CORÉE	0.030%	19,059,602	KRW	1,094.819235	32,303,009,205	24,009,307,003	30.94%
15 KUWAIT/KOWEIT	0.336%	10,069,382	USD	1.463498	14,736,521	10,064,115	46.43%
16 THE NETHERLANDS/PAY-BAS	3.700%	110,883,080	EUR	1.206338	133,762,473	126,231,947	5.97%
17 NORWAY/NORVEGE	3.540%	106,088,136	NOK	10.043895	1,065,538,099	961,412,939	10.83%
18 PORTUGAL	0.642%	19,239,713	EUR	1.206338	23,209,597	21,902,949	5.97%
19 SAUDI ARABIA/ SAOUDITE	0.540%	16,185,967	USD	1.463498	23,688,130	16,177,500	46.43%
20 SOUTH AFRICA/AFRIQUE DU SUD	0.118%	3,533,715	ZAR	9.484235	33,514,587	30,449,102	10.07%
21 SPAIN/ESPAGNE	2.000%	59,936,800	EUR	1.206338	72,304,039	68,233,485	5.97%
22 SWEDEN/SUEDE	4.000%	119,873,600	SEK	11.043450	1,323,818,108	1,279,003,396	3.50%
23 SWITZERLAND/SUISSE	3.000%	89,905,200	CHF	1.853873	166,672,823	153,471,767	8.60%
24 UNITED ARAB EMIRATES / EMIRATS ARAB UNIS	0.000%	-	-				
25 UNITED KINGDOM/ROYAUME-UNI	5.500%	164,826,200	GBP	0.807640	133,120,232	115,460,120	15.30%
26 U.S.A/ETATS UNIS D'AMERIQUE	11.819%	354,185,273	USD	1.463498	518,349,439	354,000,000	46.43%
<b>TOTAL DONOR CONTRIBUTIONS</b>	<b>78.41%</b>	<b>2,349,828,768</b>	<b>26.45%</b>	<b>% increase compared to ADF-IX</b>			
<b>SUPPLEMENTARY CONTRIBUTIONS THROUGH ACCELERATION</b>							
<b>VOLUNTARY CONTRIBUTIONS</b>							
<b>GAP</b>	<b>21.59%</b>	<b>647,011,232</b>	<b>41.05%</b>	<b>% increase compared to ADF-IX</b>			
<b>REPLENISHMENT LEVEL</b>	<b>100.00%</b>	<b>2,996,840,000</b>	<b>26.45%</b>	<b>% increase compared to ADF-IX</b>			
<b>INTERNALLY GENERATED RESOURCES</b>		<b>532,000,000</b>	<b>54.43%</b>	<b>% increase compared to ADF-IX</b>			
<b>TOTAL RESOURCES</b>		<b>3,528,840,000</b>	<b>30.00%</b>	<b>% increase compared to ADF-IX</b>			

(Increase ADF-IX TOTAL RESOURCES by 45%)  
(Hausse de 45% sur les ressources totales du FAD-IX)

**SIMULATION OF SUBSCRIPTION TO ADF-X REPLENISHMENT**  
**SIMULATION DES SOUSCRIPTIONS POUR LA RECONSTITUTION DU FAD-X**

STATE PARTICIPANTS	BURDEN SHARE  REPARTITION DU FARDEAU	CONTRIBUTIONS IN UA  CONTRIBUTIONS EN UC	UNITS OF OBLIGATION  DEVISE D'ENGAGEMENT	EXCHANGE RATE  TAUX DE CHANGE	AMOUNT SUBSCRIBED IN CURRENCY OF OBLIGATION  MONTANT A SOUSCRIRE EN DEVISE (A)	ADF-IX AMOUNT SUBSCRIBED IN CURRENCY OF OBLIGATION  MONTANT A SOUSCRIRE EN DEVISE (B)	% CHANGE IN CURRENCY OF OBLIGATION  COMPARAISON EN DEVISE PAR RAPPORT AU FAD-IX  (A)-(B)/B
1 ARGENTINA	0.000%		-				
2 AUSTRIA/AUTRICHE	0.980%	33,373,108	EUR	1.206338	40,259,248	33,448,249	20.36%
3 BELGIUM/BELGIQUE	1.650%	56,166,165	EUR	1.206338	67,755,379	56,292,625	20.36%
4 BRAZIL/BRESIL	0.334%	11,364,609	USD	1.463498	16,632,083	10,000,000	66.32%
5 CANADA	4.500%	153,180,450	CAD	1.952329	299,058,635	208,830,512	43.21%
6 CHINA/CHINE	1.642%	55,893,844	USD	1.463498	81,800,529	49,182,372	66.32%
7 DENMARK/DANEMARK	3.000%	102,120,300	DKK	8.971507	916,172,986	761,665,647	20.29%
8 FINLAND/FINLANDE	1.500%	51,060,150	EUR	1.206338	61,595,799	51,175,114	20.36%
9 FRANCE	7.328%	249,438,381	EUR	1.206338	300,906,997	250,000,000	20.36%
10 GERMANY/ALLEMAGNE	8.354%	284,385,646	EUR	1.206338	343,065,211	285,025,950	20.36%
11 INDIA/INDE	0.174%	5,923,753	INR	66.617014	394,622,739	247,450,000	59.48%
12 ITALY/ITALIE	4.300%	146,372,430	EUR	1.206338	176,574,624	146,701,993	20.36%
13 JAPAN/JAPON	8.817%	300,134,227	JPY	160.625842	48,209,312,972	32,217,476,000	49.64%
14 KOREA/KOREE	0.636%	21,649,504	KRW	1,694.819235	36,691,995,129	24,669,367,063	48.74%
15 KUWAIT/KOWEIT	0.336%	11,437,474	USD	1.463498	16,738,720	10,064,115	66.32%
16 THE NETHERLANDS/PAY-BAS	3.700%	125,948,370	EUR	1.206338	151,936,305	126,231,947	20.36%
17 NORWAY/NORVEGE	3.540%	120,501,954	NOK	10.043895	1,210,308,973	961,412,939	25.89%
18 PORTUGAL	0.642%	21,853,744	EUR	1.206338	26,363,002	21,902,949	20.36%
19 SAUDI ARABIA/SAOUDITE	0.540%	18,385,097	USD	1.463498	26,908,552	16,177,500	66.32%
20 SOUTH AFRICA/AFRIQUE DU SUD	0.118%	4,013,829	ZAR	9.484235	38,068,095	30,449,102	25.02%
21 SPAIN/ESPAGNE	2.000%	68,080,200	EUR	1.206338	82,127,732	68,233,485	20.36%
22 SWEDEN/SUEDE	4.000%	136,160,400	SEK	11.043450	1,503,680,569	1,279,003,396	17.57%
23 SWITZERLAND/SUISSE	3.000%	102,120,300	CHF	1.853873	189,318,067	153,471,767	23.36%
24 UNITED ARAB EMIRATES / EMIRATS ARAB UNIS	0.000%	-	-				
25 UNITED KINGDOM/ROYAUME-UNI	5.500%	187,220,550	GBP	0.807640	151,206,805	115,460,120	30.96%
26 U.S.A/ETATS UNIS D'AMERIQUE	11.819%	402,307,168	USD	1.463498	588,775,735	354,000,000	66.32%
<b>TOTAL DONOR CONTRIBUTIONS</b>	<b>78.41%</b>	<b>2,669,091,651</b>	<b>43.63%</b>	<b>% increase compared to ADF-IX</b>			
<b>SUPPLEMENTARY CONTRIBUTIONS THROUGH ACCELERATION</b>							
<b>VOLUNTARY CONTRIBUTIONS</b>							
<b>GAP</b>	<b>21.59%</b>	<b>734,918,349</b>	<b>60.21%</b>	<b>% increase compared to ADF-IX</b>			
<b>REPLENISHMENT LEVEL</b>	<b>100.00%</b>	<b>3,404,010,000</b>	<b>43.63%</b>	<b>% increase compared to ADF-IX</b>			
<b>INTERNALLY GENERATED RESOURCES</b>		<b>532,000,000</b>	<b>54.43%</b>	<b>% increase compared to ADF-IX</b>			
<b>TOTAL RESOURCES</b>		<b>3,936,010,000</b>	<b>45.00%</b>	<b>% increase compared to ADF-IX</b>			

**(Increase ADF-IX TOTAL RESOURCES by 65%)  
(Hausse de 65% sur les ressources totales du FAD-IX)**

**SIMULATION OF SUBSCRIPTION TO ADF-X REPLENISHMENT  
SIMULATION DES SOUSCRIPTIONS POUR LA RECONSTITUTION DU FAD-X**

STATE PARTICIPANTS	BURDEN SHARE  REPARTITION DU FARDEAU	CONTRIBUTIONS IN UA  CONTRIBUTIONS EN UC	UNITS OF OBLIGATION  DEVISE D'ENGAGEMENT	EXCHANGE RATE  TAUX DE CHANGE	AMOUNT SUBSCRIBED IN CURRENCY OF OBLIGATION  MONTANT A SOUSCRIRE EN DEVISE (A)	ADF-IX AMOUNT SUBSCRIBED IN CURRENCY OF OBLIGATION  MONTANT A SOUSCRIRE EN DEVISE (B)	% CHANGE IN CURRENCY OF OBLIGATION  COMPARAISON EN DEVISE PAR RAPPORT AU FAD-IX  (A)-(B)/B
1 ARGENTINA	0.000%		-				
2 AUSTRIA/AUTRICHE	0.980%	38,695,730	EUR	1.206338	46,680,130	33,448,249	39.56%
3 BELGIUM/BELGIQUE	1.650%	65,124,015	EUR	1.206338	78,561,574	56,292,625	39.56%
4 BRAZIL/BRESIL	0.334%	13,177,132	USD	1.463498	19,284,707	10,000,000	92.85%
5 CANADA	4.500%	177,610,950	CAD	1.952329	346,755,008	208,830,512	66.05%
6 CHINA/CHINE	1.642%	64,808,262	USD	1.463498	94,846,762	49,182,372	92.85%
7 DENMARK/DANEMARK	3.000%	118,407,300	DKK	8.971507	1,062,291,921	761,665,647	39.47%
8 FINLAND/FINLANDE	1.500%	59,203,650	EUR	1.206338	71,419,613	51,175,114	39.56%
9 FRANCE	7.328%	289,220,901	EUR	1.206338	348,898,163	250,000,000	39.56%
10 GERMANY/ALLEMAGNE	8.354%	329,741,848	EUR	1.206338	397,780,122	285,025,950	39.56%
11 INDIA/INDE	0.174%	6,868,523	INR	66.617014	457,560,476	247,450,000	84.91%
12 ITALY/ITALIE	4.300%	169,717,130	EUR	1.206338	204,736,223	146,701,993	39.56%
13 JAPAN/JAPON	8.817%	348,002,145	JPY	160.625842	55,898,137,626	32,217,476,000	73.50%
14 KOREA/COREE	0.636%	25,102,348	KRW	1,694.819235	42,543,941,556	24,669,367,063	72.46%
15 KUWAIT/KOWEIT	0.336%	13,261,618	USD	1.463498	19,408,351	10,064,115	92.85%
16 THE NETHERLANDS/PAY-BAS	3.700%	146,035,670	EUR	1.206338	176,168,378	126,231,947	39.56%
17 NORWAY/NORVEGE	3.540%	139,720,614	NOK	10.043895	1,403,339,176	961,412,939	45.97%
18 PORTUGAL	0.642%	25,339,162	EUR	1.206338	30,567,594	21,902,949	39.56%
19 SAUDI ARABIA/ SAOUDITE	0.540%	21,317,306	USD	1.463498	31,197,834	16,177,500	92.85%
20 SOUTH AFRICA /AFRIQUE DU SUD	0.118%	4,653,988	ZAR	9.484235	44,139,514	30,449,102	44.96%
21 SPAIN/ESPAGNE	2.000%	78,938,200	EUR	1.206338	95,226,150	68,233,485	39.56%
22 SWEDEN/SUEDE	4.000%	157,876,400	SEK	11.043450	1,743,500,130	1,279,003,396	36.32%
23 SWITZERLAND/SUISSE	3.000%	118,407,300	CHF	1.853873	219,512,096	153,471,767	43.03%
24 UNITED ARAB EMIRATES / EMIRATS ARAB UNIS	0.000%	-	-				
25 UNITED KINGDOM/ROYAUME-UNI	5.500%	217,080,050	GBP	0.807640	175,322,532	115,460,120	51.85%
26 U.S.A/ETATS UNIS D'AMERIQUE	11.819%	466,470,482	USD	1.463498	682,678,617	354,000,000	92.85%
<b>TOTAL DONOR CONTRIBUTIONS</b>	<b>78.41%</b>	<b>3,094,780,723</b>	<b>66.54%</b>	<b>% increase compared to ADF-IX</b>			
<b>SUPPLEMENTARY CONTRIBUTIONS THROUGH ACCELERATION</b>							
<b>VOLUNTARY CONTRIBUTIONS</b>							
<b>GAP</b>	<b>21.59%</b>	<b>852,129,277</b>	<b>85.76%</b>	<b>% increase compared to ADF-IX</b>			
<b>REPLENISHMENT LEVEL</b>	<b>100.00%</b>	<b>3,946,910,000</b>	<b>66.54%</b>	<b>% increase compared to ADF-IX</b>			
<b>INTERNALLY GENERATED RESOURCES</b>		<b>532,000,000</b>	<b>54.43%</b>	<b>% increase compared to ADF-IX</b>			
<b>TOTAL RESOURCES</b>		<b>4,478,910,000</b>	<b>65.00%</b>	<b>% increase compared to ADF-IX</b>			



# **AFRICAN DEVELOPMENT FUND**



ADF–X/CM.4/2004/02/Add.

## **ADF – X FINANCING FRAMEWORK ADDENDUM**

Copenhagen, Denmark

**December 2004**

## **ADF X FINANCING FRAMEWORK: ADDENDUM**

This paper seeks to address a number of issues raised by the Deputies on the document relating to the Financing Framework for ADF-X. These issues relate mainly to the estimate of foregone reflows and the discount rates used for determining their present value, the use of recovered foregone income reflows, consolidated contributions during ADF-X, the financial impact of increased grant allocation in future replenishments and the standard ADF-X encashment schedule.

### **Updated estimate of foregone income reflows for ADF-IX**

Based on the most recently available figures for the ADF-IX replenishment resources, the foregone income reflows due to increased grant funding, when present valued to the beginning of 2005, is estimated at UA 33.5 million. The upward revision in the estimate, relative to the previous estimate of UA 28 million at the time of ADF-IX Mid-term review, is attributable to the increase in the ADF-IX resources caused by higher loan cancellations than earlier estimates.

Based on the updated estimate, the required contributions from State Participants over the ADF-X encashment period are presented in Annex IA and IB<sup>1</sup>.

### **Discount rates for accelerated note encashment and for determining present value of foregone income reflows in ADF-X**

The Financing Framework document proposes the use of currency-specific adjusted CIRR for computations relating to accelerated encashments in ADF-X. While this is in line with the replenishment concluded earlier this year for the Asian Development Fund, IDA has proposed a single discount rate of 3.5% for the accelerated notes encashment computations, for its ongoing IDA-14 negotiations. The impact of using a single discount rate of 3.5% on the accelerated encashments is presented in Annex 2.

The Financing Framework document uses the adjusted CIRR for SDR, 2.91%, as the discount rate for estimating the present value of foregone income reflows due to increased grant funding in ADF-X. In contrast, IDA uses its historical rate of return on investments, at 6%, as the discount rate for estimating the present value of foregone income reflows. The impact of using a 6% discount rate would result in a significant reduction in the present value of foregone income reflows due to increased grant funding. For example, for the Medium Case Replenishment scenario of UA 3.93 billion, with a grant allocation of 40%, the present value of foregone income reflows using a 6% discount rate is UA 112.25 million, as compared to the estimate of UA 176.74 million computed using a discount rate of 2.91%. As a consequence of the lower present value of foregone reflows resulting from the higher discount rate, the upfront fee required to be

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<sup>1</sup> Annex IB uses the discount rate of 3.5% discussed in the following section.

charged for grants, in order to compensate the foregone reflows, decreases from 12.93% to 8.21%<sup>2</sup>.

While IDA's proposal is based on historical returns obtained on investments, a more realistic indicator for expected future investment returns over the long term would be based on the prevailing long-term CIRR rates. An analysis of the foregone reflows using the adjusted SDR CIRR for more than 8.5 years (measured at 3.84% on June 30, 2004) as the discount rate, indicates that the present value of foregone reflows amounts to UA 152.54 million; the upfront fee required to be charged on grants for compensating this level of foregone reflows is estimated at 11.16%.

### **Use of recovered foregone reflows**

In its ongoing negotiations, IDA proposes to use the proceeds of the compensation for foregone reflows to either lend at higher than standard IDA rates to IBRD/IDA blend countries, or invest the proceeds with the objective of matching the foregone cash flows. For ADF-X, such an approach of managing the resources separately is considered impractical due to the relatively small magnitude of the amount involved and the limited number of ADB/ADF blend countries among the regional member countries. Therefore, Management proposes to manage the proceeds of the foregone reflows' compensation as part of normal investments to reinforce the Fund's commitment capacity.

### **Consolidated contributions during ADF-X**

The consolidated donor contributions comprising the ADF-X regular subscription, the contribution required to compensate for ADF-IX grants and the contribution for the post conflict countries facility (PCCF) are presented for the base and medium case scenarios in Annexes 3 and 4.

### **Financial impact of increased grant allocation in future replenishments**

The Financing Framework document examined the impact of increased grant allocation in future replenishments on the Fund's self-sufficiency by presenting, in Annex 6, the amounts of projected loan reflows for different grant levels. An additional table, complementing the original analysis, is presented on the following page, showing the amount of foregone principal reflows for increased grant allocation in future replenishments, vis-à-vis the base grant level of 7.5%.

As indicated in the table, the foregone principal reflows will be relatively limited for all three scenarios from ADF-XIII to ADF-XVI, i.e., 2014 to 2025 mainly because of the highly concessional nature of ADF lending terms which require no loan repayments in the first 10 years of the facility and only 1% of loan amount per year between the 11<sup>th</sup> and the 20<sup>th</sup> year.

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<sup>2</sup>The discount rate used for computing the present value of the fee levied on grants is 2.91%. If the IDA rate of 3.5% is used, the upfront fee to be charged will be 8.44%



Foregone principal reflows due to increased grants relative to 7.5% grant level  
(Amounts in UA millions)

Replenishment	Period	Grant Level		
		30.00%	40.00%	50.00%
ADF-X	2005-07	0	0	0
ADF-XI	2008-10	0	0	0
ADF-XII	2011-13	0	0	0
ADF-XIII	2014-16	-10	-14	-18
ADF-XIV	2017-19	-32	-47	-61
ADF-XV	2020-22	-56	-81	-106
ADF XVI	2023-25	-88	-127	-166
ADF XVII	2026-28	-153	-221	-289
ADF-VIII	2029-31	-224	-324	-423
ADF-XIX	2032-34	-296	-427	-558
ADF-XX	2035-37	-367	-530	-693
ADF-XXI	2038-40	-438	-633	-828
ADF-XXII	2041-43	-509	-736	-962
ADF-XXIII	2044-46	-581	-839	-1097
ADF-XXIV	2047-49	-652	-941	-1231
ADF-XXV	2050-52	-723	-1044	-1366

### Amended Standard Encashment Schedule

The following table presents a slightly amended encashment schedule, with rounding off errors eliminated.

Tenth General Replenishment of the Resources of the African Development Fund	
Standard Encashment Schedule	
Year	Encashment Percentage
2005	3.43
2006	7.76
2007	12.58
2008	14.77
2009	14.87
2010	13.70
2011	11.74
2012	9.74
2013	8.40
2014	3.01
Total	100.00

## ANNEX 1-A

### ADF-IX Grant Cost Compensation

(Using discount rate of 2.92% to determine nominal contribution over encashment period)

Amounts in UA millions

Donor	Share	Upfront compensation	Compensation over ADF-X encashment period										Total
		2005	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
AUSTRIA/AUTRICHE	0.980%	0.33	0.013	0.029	0.047	0.055	0.055	0.051	0.044	0.036	0.031	0.011	0.372
BELGIUM/BELGIQUE	1.650%	0.55	0.021	0.049	0.079	0.092	0.093	0.086	0.073	0.061	0.052	0.019	0.625
BRAZIL/BRESIL	0.334%	0.11	0.004	0.010	0.016	0.019	0.019	0.017	0.015	0.012	0.011	0.004	0.127
CANADA	4.500%	1.51	0.059	0.132	0.214	0.252	0.254	0.234	0.200	0.166	0.143	0.051	1.705
CHINA/CHINE	1.642%	0.55	0.021	0.048	0.078	0.092	0.093	0.085	0.073	0.061	0.052	0.019	0.622
DENMARK/DANEMARK	3.000%	1.00	0.039	0.088	0.143	0.168	0.169	0.156	0.133	0.111	0.095	0.034	1.137
FINLAND/FINLANDE	1.500%	0.50	0.020	0.044	0.071	0.084	0.085	0.078	0.067	0.055	0.048	0.017	0.568
FRANCE	7.328%	2.45	0.095	0.215	0.349	0.410	0.413	0.380	0.326	0.270	0.233	0.084	2.777
GERMANY/ALLEMAGNE	8.354%	2.80	0.109	0.246	0.398	0.468	0.471	0.434	0.372	0.308	0.266	0.095	3.166
INDIA/INDE	0.174%	0.06	0.002	0.005	0.008	0.010	0.010	0.009	0.008	0.006	0.006	0.002	0.066
ITALY/ITALIE	4.300%	1.44	0.056	0.126	0.205	0.241	0.242	0.223	0.191	0.159	0.137	0.049	1.630
JAPAN/JAPON	8.817%	2.95	0.115	0.259	0.420	0.494	0.497	0.458	0.392	0.325	0.281	0.101	3.341
KOREA/COREE	0.636%	0.21	0.008	0.019	0.030	0.036	0.036	0.033	0.028	0.023	0.020	0.007	0.241
KUWAIT/KOWEIT	0.336%	0.11	0.004	0.010	0.016	0.019	0.019	0.017	0.015	0.012	0.011	0.004	0.127
THE NETHERLANDS/PAY-BAS	3.700%	1.24	0.048	0.109	0.176	0.207	0.209	0.192	0.165	0.137	0.118	0.042	1.402
NORWAY/NORVEGE	3.540%	1.19	0.046	0.104	0.169	0.198	0.200	0.184	0.158	0.131	0.113	0.040	1.342
PORTUGAL	0.642%	0.21	0.008	0.019	0.031	0.036	0.036	0.033	0.029	0.024	0.020	0.007	0.243
SAUDI ARABIA/A. SAOUDITE	0.540%	0.18	0.007	0.016	0.026	0.030	0.030	0.028	0.024	0.020	0.017	0.006	0.205
SOUTH AFRICA /AFRIQUE DU SUD	0.118%	0.04	0.002	0.003	0.006	0.007	0.007	0.006	0.005	0.004	0.004	0.001	0.045
SPAIN/ESPAGNE	2.000%	0.67	0.026	0.059	0.095	0.112	0.113	0.104	0.089	0.074	0.064	0.023	0.758
SWEDEN/SUEDE	4.000%	1.34	0.052	0.118	0.191	0.224	0.225	0.208	0.178	0.148	0.127	0.046	1.516
SWITZERLAND/SUISSE	3.000%	1.00	0.039	0.088	0.143	0.168	0.169	0.156	0.133	0.111	0.095	0.034	1.137
UNITED KINGDOM/ROYAUME-UNI	5.500%	1.84	0.072	0.162	0.262	0.308	0.310	0.285	0.245	0.203	0.175	0.063	2.084
U.S.A/ETATS UNIS D 'AMERIQUE	11.819%	3.96	0.154	0.347	0.563	0.662	0.666	0.613	0.526	0.436	0.376	0.135	4.479
<b>SUB-TOTAL</b>	<b>78.41%</b>	<b>26.25</b>	<b>1.02</b>	<b>2.31</b>	<b>3.74</b>	<b>4.39</b>	<b>4.42</b>	<b>4.07</b>	<b>3.49</b>	<b>2.89</b>	<b>2.49</b>	<b>0.90</b>	<b>29.71</b>
<b>GAP</b>	<b>21.59%</b>	<b>7.23</b>	To be funded by the UA 15 million ADF-IX allocation to fund foregone reflows.										
<b>TOTAL</b>	<b>100.00%</b>	<b>33.48</b>											

## ANNEX 1-B

### ADF-IX Grant Cost Compensation

(Using discount rate of 3.50% to determine nominal contribution over encashment period)

Amounts in UA millions

		Upfront compensation	Compensation over ADF-X encashment period											
Donor	Share	2005	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total	
AUSTRIA/AUTRICHE	0.980%	0.33	0.013	0.030	0.048	0.056	0.057	0.052	0.045	0.037	0.032	0.011	0.380	
BELGIUM/BELGIQUE	1.650%	0.55	0.022	0.050	0.081	0.095	0.095	0.088	0.075	0.062	0.054	0.019	0.640	
BRAZIL/BRESIL	0.334%	0.11	0.004	0.010	0.016	0.019	0.019	0.018	0.015	0.013	0.011	0.004	0.130	
CANADA	4.500%	1.51	0.060	0.135	0.220	0.258	0.260	0.239	0.205	0.170	0.147	0.053	1.746	
CHINA/CHINE	1.642%	0.55	0.022	0.049	0.080	0.094	0.095	0.087	0.075	0.062	0.053	0.019	0.637	
DENMARK/DANEMARK	3.000%	1.00	0.040	0.090	0.146	0.172	0.173	0.159	0.137	0.113	0.098	0.035	1.164	
FINLAND/FINLANDE	1.500%	0.50	0.020	0.045	0.073	0.086	0.087	0.080	0.068	0.057	0.049	0.018	0.582	
FRANCE	7.328%	2.45	0.098	0.221	0.358	0.420	0.423	0.389	0.334	0.277	0.239	0.086	2.843	
GERMANY/ALLEMAGNE	8.354%	2.80	0.111	0.252	0.408	0.479	0.482	0.444	0.381	0.316	0.272	0.098	3.242	
INDIA/INDE	0.174%	0.06	0.002	0.005	0.008	0.010	0.010	0.009	0.008	0.007	0.006	0.002	0.068	
ITALY/ITALIE	4.300%	1.44	0.057	0.129	0.210	0.247	0.248	0.229	0.196	0.162	0.140	0.050	1.669	
JAPAN/JAPON	8.817%	2.95	0.117	0.265	0.430	0.506	0.509	0.469	0.402	0.333	0.287	0.103	3.421	
KOREA/COREE	0.636%	0.21	0.008	0.019	0.031	0.036	0.037	0.034	0.029	0.024	0.021	0.007	0.247	
KUWAIT/KOWEIT	0.336%	0.11	0.004	0.010	0.016	0.019	0.019	0.018	0.015	0.013	0.011	0.004	0.130	
THE NETHERLANDS/PAY-BAS	3.700%	1.24	0.049	0.111	0.181	0.212	0.214	0.197	0.169	0.140	0.121	0.043	1.436	
NORWAY/NORVEGE	3.540%	1.19	0.047	0.107	0.173	0.203	0.204	0.188	0.161	0.134	0.115	0.041	1.374	
PORTUGAL	0.642%	0.21	0.009	0.019	0.031	0.037	0.037	0.034	0.029	0.024	0.021	0.008	0.249	
SAUDI ARABIA/A. SAOUDITE	0.540%	0.18	0.007	0.016	0.026	0.031	0.031	0.029	0.025	0.020	0.018	0.006	0.210	
SOUTH AFRICA /AFRIQUE DU SUD	0.118%	0.04	0.002	0.004	0.006	0.007	0.007	0.006	0.005	0.004	0.004	0.001	0.046	
SPAIN/ESPAGNE	2.000%	0.67	0.027	0.060	0.098	0.115	0.115	0.106	0.091	0.076	0.065	0.023	0.776	
SWEDEN/SUEDE	4.000%	1.34	0.053	0.120	0.195	0.229	0.231	0.213	0.182	0.151	0.130	0.047	1.552	
SWITZERLAND/SUISSE	3.000%	1.00	0.040	0.090	0.146	0.172	0.173	0.159	0.137	0.113	0.098	0.035	1.164	
UNITED KINGDOM/ROYAUME-UNI	5.500%	1.84	0.073	0.166	0.268	0.315	0.317	0.292	0.251	0.208	0.179	0.064	2.134	
U.S.A/ETATS UNIS D 'AMERIQUE	11.819%	3.96	0.157	0.356	0.577	0.678	0.682	0.628	0.538	0.447	0.385	0.138	4.586	
SUB-TOTAL	78.41%	26.25	1.04	2.36	3.83	4.50	4.53	4.17	3.57	2.96	2.55	0.92	30.43	
GAP	21.59%	7.23	To be funded by the UA 15 million ADF-IX allocation to fund foregone reflows.											
TOTAL	100.00%	33.48												

## ANNEX 2

### Accelerated Encashment Schedules with Single Discount rate of 3.5%

Year of Encashment	Assumed Discount Factor	Standard Encashment Schedule	Accelerated Encashment Schedule 1	Accelerated Encashment Schedule 2	Accelerated Encashment Schedule 3	Accelerated Encashment Schedule 4	Accelerated Encashment Schedule 5	Accelerated Encashment Schedule 6
2005	1	3.43	100.00	33.33	25.00	20.00	16.67	12.5
2006	0.966	7.76		33.33	25.00	20.00	16.67	12.5
2007	0.934	12.58		33.33	25.00	20.00	16.67	12.5
2008	0.902	14.78			25.00	20.00	16.67	12.5
2009	0.871	14.88				20.00	16.67	12.5
2010	0.842	13.70					16.67	12.5
2011	0.814	11.74						12.5
2012	0.786	9.74						12.5
2013	0.759	8.40						
2014	0.734	3.01						
<b>Total</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Discount Rate		3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
NPV Equivalent (%)		86.28	100.00	96.66	95.04	93.46	91.92	88.93
Credit as % of face value			13.72	10.74	9.22	7.68	6.13	2.98

## ANNEX 3-A

### Contributions to ADF-X Replenishment: Base Case Scenario

(Using discount rate of 2.91% to compute ADF-IX grant nominal compensation)

State Participant	Burden Share*	Contribution in UA million				Currency of obligation	Exchange Rate	Amount in currency of obligation (millions)
		Regular	ADF-IX Grant Compensation	PCCF**	Total			
AUSTRIA/AUTRICHE	0.980%	29.38	0.37	1.25	31.00	EUR	1.206338	37.40
BELGIUM/BELGIQUE	1.650%	49.45	0.63	2.10	52.18	EUR	1.206338	62.94
BRAZIL/BRESIL	0.334%	10.01	0.13	0.43	10.56	USD	1.463498	15.45
CANADA	4.500%	134.86	1.70	5.74	142.30	CAD	1.952329	277.82
CHINA/CHINE	1.642%	49.21	0.62	2.09	51.92	USD	1.463498	75.99
DENMARK/DANEMARK	3.000%	89.91	1.14	3.83	94.87	DKK	8.971507	851.11
FINLAND/FINLANDE	1.500%	44.95	0.57	1.91	47.43	EUR	1.206338	57.22
FRANCE	7.328%	219.60	2.78	9.35	231.72	EUR	1.206338	279.54
GERMANY/ALLEMAGNE	8.354%	250.37	3.16	10.65	264.19	EUR	1.206338	318.70
INDIA/INDE	0.174%	5.22	0.07	0.22	5.50	INR	66.617014	366.60
ITALY/ITALIE	4.300%	128.86	1.63	5.48	135.98	EUR	1.206338	164.03
JAPAN/JAPON	8.817%	264.23	3.34	11.24	278.82	JPY	160.625842	44,785.45
KOREA/COREE	0.636%	19.06	0.24	0.81	20.11	KRW	1,694.819235	34,086.10
KUWAIT/KOWEIT	0.336%	10.07	0.13	0.43	10.63	USD	1.463498	15.55
THE NETHERLANDS/PAY-BAS	3.700%	110.88	1.40	4.72	117.00	EUR	1.206338	141.15
NORWAY/NORVEGE	3.540%	106.09	1.34	4.51	111.94	NOK	10.043895	1,124.35
PORTUGAL	0.642%	19.24	0.24	0.82	20.30	EUR	1.206338	24.49
SAUDI ARABIA/A. SAOUDITE	0.540%	16.19	0.20	0.69	17.08	USD	1.463498	25.00
SOUTH AFRICA /AFRIQUE DU SUD	0.118%	3.53	0.04	0.15	3.73	ZAR	9.484235	35.36
SPAIN/ESPAGNE	2.000%	59.94	0.76	2.55	63.25	EUR	1.206338	76.29
SWEDEN/SUEDE	4.000%	119.87	1.52	5.10	126.49	SEK	11.043450	1,396.89
SWITZERLAND/SUISSE	3.000%	89.91	1.14	3.83	94.87	CHF	1.853873	175.87
UNITED KINGDOM/ROYAUME-UNI	5.500%	164.83	2.08	7.01	173.92	GBP	0.807640	140.47
U.S.A./ETATS UNIS D 'AMERIQUE	11.819%	354.19	4.48	15.07	373.74	USD	1.463498	546.96
<b>TOTAL FROM DONORS</b>	<b>78.410%</b>	<b>2,349.83</b>	<b>29.70</b>	<b>100.00</b>	<b>2,479.53</b>			

GAP 21.590% 647.01

EXPECTED DONOR CONTRIBUTION 100.000% 2,996.84

\* Assumed at ADF-IX shares

\*\* Burden shares normalized to add up to UA 100 million

## ANNEX 3-B

### Contributions to ADF-X Replenishment: Medium Case Scenario

(Using discount rate of 2.91% to compute ADF-IX grant nominal compensation)

State Participant	Burden Share*	Contribution in UA million				Currency of obligation	Exchange Rate	Amount in currency of obligation (millions)
		Regular	ADF-IX Grant Compensation	PCCF**	Total			
AUSTRIA/AUTRICHE	0.980%	33.37	0.37	1.25	34.99	EUR	1.206338	42.22
BELGIUM/BELGIQUE	1.650%	56.17	0.63	2.10	58.90	EUR	1.206338	71.05
BRAZIL/BRESIL	0.334%	11.36	0.13	0.43	11.92	USD	1.463498	17.44
CANADA	4.500%	153.18	1.70	5.74	160.62	CAD	1.952329	313.59
CHINA/CHINE	1.642%	55.89	0.62	2.09	58.61	USD	1.463498	85.78
DENMARK/DANEMARK	3.000%	102.12	1.14	3.83	107.08	DKK	8.971507	960.69
FINLAND/FINLANDE	1.500%	51.06	0.57	1.91	53.54	EUR	1.206338	64.59
FRANCE	7.328%	249.44	2.78	9.35	261.56	EUR	1.206338	315.53
GERMANY/ALLEMAGNE	8.354%	284.39	3.16	10.65	298.21	EUR	1.206338	359.74
INDIA/INDE	0.174%	5.92	0.07	0.22	6.21	INR	66.617014	413.80
ITALY/ITALIE	4.300%	146.37	1.63	5.48	153.49	EUR	1.206338	185.16
JAPAN/JAPON	8.817%	300.13	3.34	11.24	314.72	JPY	160.625842	50,552.00
KOREA/COREE	0.636%	21.65	0.24	0.81	22.70	KRW	1,694.819235	38,475.01
KUWAIT/KOWEIT	0.336%	11.44	0.13	0.43	11.99	USD	1.463498	17.55
THE NETHERLANDS/PAY-BAS	3.700%	125.95	1.40	4.72	132.07	EUR	1.206338	159.32
NORWAY/NORVEGE	3.540%	120.50	1.34	4.51	126.36	NOK	10.043895	1,269.12
PORTUGAL	0.642%	21.85	0.24	0.82	22.92	EUR	1.206338	27.64
SAUDI ARABIA/A. SAOUDITE	0.540%	18.39	0.20	0.69	19.28	USD	1.463498	28.21
SOUTH AFRICA /AFRIQUE DU SUD	0.118%	4.01	0.04	0.15	4.21	ZAR	9.484235	39.92
SPAIN/ESPAGNE	2.000%	68.08	0.76	2.55	71.39	EUR	1.206338	86.12
SWEDEN/SUEDE	4.000%	136.16	1.52	5.10	142.78	SEK	11.043450	1,576.75
SWITZERLAND/SUISSE	3.000%	102.12	1.14	3.83	107.08	CHF	1.853873	198.52
UNITED KINGDOM/ROYAUME-UNI	5.500%	187.22	2.08	7.01	196.32	GBP	0.807640	158.55
U.S.A/ETATS UNIS D 'AMERIQUE	11.819%	402.31	4.48	15.07	421.86	USD	1.463498	617.39
<b>TOTAL</b>	<b>78.410%</b>	<b>2,669.09</b>	<b>29.70</b>	<b>100.00</b>	<b>2,798.79</b>			

GAP 21.590% 734.92

EXPECTED DONOR CONTRIBUTION 100.000% 3,404.01

\* Assumed at ADF-IX shares

\*\* Burden shares normalized to add up to UA 100 million

## ANNEX 4-A

### Contributions to ADF-X Replenishment: Base Case Scenario

(Using discount rate of 3.50% to compute ADF-IX grant nominal compensation)

State Participant	Burden Share*	Contribution in UA million				Currency of obligation	Exchange Rate	Amount in currency of obligation (millions)
		Regular	ADF-IX Grant Compensation	PCCF**	Total			
AUSTRIA/AUTRICHE	0.980%	29.38	0.38	1.25	31.01	EUR	1.206338	37.41
BELGIUM/BELGIQUE	1.650%	49.45	0.64	2.10	52.19	EUR	1.206338	62.96
BRAZIL/BRESIL	0.334%	10.01	0.13	0.43	10.56	USD	1.463498	15.46
CANADA	4.500%	134.86	1.75	5.74	142.34	CAD	1.952329	277.90
CHINA/CHINE	1.642%	49.21	0.64	2.09	51.94	USD	1.463498	76.01
DENMARK/DANEMARK	3.000%	89.91	1.16	3.83	94.90	DKK	8.971507	851.35
FINLAND/FINLANDE	1.500%	44.95	0.58	1.91	47.45	EUR	1.206338	57.24
FRANCE	7.328%	219.60	2.84	9.35	231.79	EUR	1.206338	279.62
GERMANY/ALLEMAGNE	8.354%	250.37	3.24	10.65	264.27	EUR	1.206338	318.79
INDIA/INDE	0.174%	5.22	0.07	0.22	5.50	INR	66.617014	366.70
ITALY/ITALIE	4.300%	128.86	1.67	5.48	136.02	EUR	1.206338	164.08
JAPAN/JAPON	8.817%	264.23	3.42	11.24	278.90	JPY	160.625842	44,798.53
KOREA/COREE	0.636%	19.06	0.25	0.81	20.12	KRW	1,694.819235	34,096.06
KUWAIT/KOWEIT	0.336%	10.07	0.13	0.43	10.63	USD	1.463498	15.55
THE NETHERLANDS/PAY-BAS	3.700%	110.88	1.44	4.72	117.04	EUR	1.206338	141.19
NORWAY/NORVEGE	3.540%	106.09	1.37	4.51	111.98	NOK	10.043895	1,124.68
PORTUGAL	0.642%	19.24	0.25	0.82	20.31	EUR	1.206338	24.50
SAUDI ARABIA/A. SAOUDITE	0.540%	16.19	0.21	0.69	17.08	USD	1.463498	25.00
SOUTH AFRICA /AFRIQUE DU SUD	0.118%	3.53	0.05	0.15	3.73	ZAR	9.484235	35.37
SPAIN/ESPAGNE	2.000%	59.94	0.78	2.55	63.26	EUR	1.206338	76.32
SWEDEN/SUEDE	4.000%	119.87	1.55	5.10	126.53	SEK	11.043450	1,397.30
SWITZERLAND/SUISSE	3.000%	89.91	1.16	3.83	94.90	CHF	1.853873	175.92
UNITED KINGDOM/ROYAUME-UNI	5.500%	164.83	2.13	7.01	173.97	GBP	0.807640	140.51
U.S.A/ETATS UNIS D 'AMERIQUE	11.819%	354.19	4.59	15.07	373.84	USD	1.463498	547.12
<b>TOTAL FROM DONORS</b>	<b>78.410%</b>	<b>2,349.83</b>	<b>30.43</b>	<b>100.00</b>	<b>2,480.25</b>			

GAP 21.590% 647.01

EXPECTED DONOR CONTRIBUTION 100.000% 2,996.84

\* Assumed at ADF-IX shares

\*\* Burden shares normalized to add up to UA 100 million

## ANNEX 4-B

### **Contributions to ADF-X Replenishment: Medium Case Scenario**

(Using discount rate of 3.50% to compute ADF-IX grant nominal compensation)

State Participant	Burden Share*	Contribution in UA million				Currency of obligation	Exchange Rate	Amount in currency of obligation (millions)
		Regular	ADF-IX Grant Compensation	PCCF**	Total			
AUSTRIA/AUTRICHE	0.980%	33.37	0.38	1.25	<b>35.00</b>	EUR	1.206338	<b>42.23</b>
BELGIUM/BELGIQUE	1.650%	56.17	0.64	2.10	<b>58.91</b>	EUR	1.206338	<b>71.07</b>
BRAZIL/BRESIL	0.334%	11.36	0.13	0.43	<b>11.92</b>	USD	1.463498	<b>17.44</b>
CANADA	4.500%	153.18	1.75	5.74	<b>160.67</b>	CAD	1.952329	<b>313.67</b>
CHINA/CHINE	1.642%	55.89	0.64	2.09	<b>58.63</b>	USD	1.463498	<b>85.80</b>
DENMARK/DANEMARK	3.000%	102.12	1.16	3.83	<b>107.11</b>	DKK	8.971507	<b>960.94</b>
FINLAND/FINLANDE	1.500%	51.06	0.58	1.91	<b>53.56</b>	EUR	1.206338	<b>64.61</b>
FRANCE	7.328%	249.44	2.84	9.35	<b>261.63</b>	EUR	1.206338	<b>315.61</b>
GERMANY/ALLEMAGNE	8.354%	284.39	3.24	10.65	<b>298.28</b>	EUR	1.206338	<b>359.83</b>
INDIA/INDE	0.174%	5.92	0.07	0.22	<b>6.21</b>	INR	66.617014	<b>413.91</b>
ITALY/ITALIE	4.300%	146.37	1.67	5.48	<b>153.52</b>	EUR	1.206338	<b>185.20</b>
JAPAN/JAPON	8.817%	300.13	3.42	11.24	<b>314.80</b>	JPY	160.625842	<b>50,565.08</b>
KOREA/COREE	0.636%	21.65	0.25	0.81	<b>22.71</b>	KRW	1,694.819235	<b>38,484.96</b>
KUWAIT/KOWEIT	0.336%	11.44	0.13	0.43	<b>12.00</b>	USD	1.463498	<b>17.56</b>
THE NETHERLANDS/PAY-BAS	3.700%	125.95	1.44	4.72	<b>132.10</b>	EUR	1.206338	<b>159.36</b>
NORWAY/NORVEGE	3.540%	120.50	1.37	4.51	<b>126.39</b>	NOK	10.043895	<b>1,269.45</b>
PORTUGAL	0.642%	21.85	0.25	0.82	<b>22.92</b>	EUR	1.206338	<b>27.65</b>
SAUDI ARABIA/A. SAOUDITE	0.540%	18.39	0.21	0.69	<b>19.28</b>	USD	1.463498	<b>28.22</b>
SOUTH AFRICA /AFRIQUE DU SUD	0.118%	4.01	0.05	0.15	<b>4.21</b>	ZAR	9.484235	<b>39.93</b>
SPAIN/ESPAGNE	2.000%	68.08	0.78	2.55	<b>71.41</b>	EUR	1.206338	<b>86.14</b>
SWEDEN/SUEDE	4.000%	136.16	1.55	5.10	<b>142.81</b>	SEK	11.043450	<b>1,577.16</b>
SWITZERLAND/SUISSE	3.000%	102.12	1.16	3.83	<b>107.11</b>	CHF	1.853873	<b>198.57</b>
UNITED KINGDOM/ROYAUME-UNI	5.500%	187.22	2.13	7.01	<b>196.37</b>	GBP	0.807640	<b>158.60</b>
U.S.A/ETATS UNIS D 'AMERIQUE	11.819%	402.31	4.59	15.07	<b>421.97</b>	USD	1.463498	<b>617.55</b>
<b>TOTAL</b>	<b>78.410%</b>	<b>2,669.09</b>	<b>30.43</b>	<b>100.00</b>	<b>2,799.52</b>			

GAP 21.590% 734.92

EXPECTED DONOR CONTRIBUTION 100.000% 3,404.01

\* Assumed at ADF-IX shares

\*\* Burden shares normalized to add up to UA 100 million



### **3.1**

#### **Report of the Consultative Meetings on the Tenth General Replenishment of the African Development Fund — Executive Summary**

# AFRICAN DEVELOPMENT FUND



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ADF-X/CM.4/2004/03

**ADF-X**

*A Partnership for Poverty Reduction and Economic Growth in Africa*

**Report of the Consultative Meetings on the Tenth General Replenishment  
of the African Development Fund**

*Executive Summary*

**Consultations on ADF-X**

**16-17 December 2004**

**Copenhagen, Denmark**

## **Introduction and Overview**

i. The African Development Fund has over the years become an important source of funding and technical assistance for some 40 low-income countries on the Continent, with UA 15.8 billion having been made available to eligible countries at the end of 2004. In recent years, the Fund has focused its activities on supporting the poverty reduction and economic growth efforts of its regional member countries. The Fund has also become a key player in regional cooperation and integration efforts, including, in particular, the New Partnership for Africa's Development (NEPAD).

ii. The Fund's important role on the continent is underscored by the fact that Sub-Saharan Africa is the one developing region in the world that will have the greatest challenge in attaining the Millennium Development Goals (MDGs). This is despite the considerable progress that many countries have made in implementing sound macroeconomic policies and in undertaking major structural reforms.

iii. In the course of 2004, State Participants in the Fund and representatives of borrowing countries (hereafter jointly referred to as participants) held consultations on the Tenth Replenishment of the General Resources of the Fund (ADF-X). They reviewed the progress that the Fund had made in recent years, and, in this connection, considered the independent evaluation of the Fund under its VII, VIII, and IX replenishment cycles. They also reviewed the Action Plan that the Fund had prepared, at their request, to further improve its effectiveness and to respond to the recommendations of the independent evaluation report.

iv. At the conclusion of their consultations, participants provided guidance on the overall strategic orientation, policy objectives, country eligibility, resource allocation system and financing terms for Fund operations under ADF-X. This report represents the outcome of their consultations.

## **Fund Operations and the Findings of the Independent Evaluation Report of ADF VII, VIII, and IX**

v. Participants welcomed the major conclusions of the independent evaluation report that the Bank Group, after undergoing intensive and continuous reform for eight years had: established a more effective organization to enable it to meet the development challenges of the 21st century; formulated new policies and strategies based on current development thinking; and improved its processes and quality control mechanisms.

vi. More specifically the independent evaluation report noted that: the 2002 reorganization of the Bank Group has reinforced the institution's capacity for long-term strategy; Country Strategy Papers (CSPs) demonstrate a consistent and solid relationship between program choices, country resource allocations, and PRSPs; the Bank has applied its Performance-Based Allocation (PBA) System conscientiously and consistently to allocate ADF resources; it has initiated a process of change aimed at improving project/program quality at entry; and that it had established a solid architecture and introduced the full range of instruments required for an effective, institution-wide monitoring and evaluation system.

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vii. However, despite these achievements the evaluation report also noted that much unfinished business remains. These pertain to: serious understaffing throughout the Bank; a lessening of country focus despite the creation of country teams; limited research and knowledge-generating capacity; limited progress in the devolution of authority and in the decentralization of its operations. The independent evaluation report concluded that the unfinished business of the reform effort can best be approached through incremental steps and fine-tuning. With additional human and financial resources, the Bank Group can indeed make headway towards fulfilling its goal of becoming the premier institution for African development.

### **The Action Plan to Improve ADF Operations during the ADF-X Cycle**

viii. At the request of participants, the Fund has prepared an Action Plan to improve ADF operational effectiveness and to implement the recommendations of the independent evaluation report. The Plan's specific goals are to: improve the organizational capacity and responsiveness of the Bank; improve the quality of the management of the ADF portfolio; strengthen further the quality of the Fund's operations; enhance the development effectiveness of Fund operations; and strengthen the Bank's research capacity and its communication strategy.


ix. With respect to organizational capacity and responsiveness, the proposed actions include: *increasing significantly staffing levels and improving the skills mix of staff* and enhancing the training of staff in key competencies; implementing an *accelerated decentralization program*, by aiming to open 8 offices in 2005 and another 8 in 2006, with delegated authority on procurement and disbursement matters commensurate with maintaining appropriate financial controls; and improving *coordination with donors* at the country level with country offices playing a key role.

x. With respect to improving the *quality and management of the portfolio*, the actions envisaged include: an improved internal review process; continued alignment of CSPs to PRSPs; strengthening and empowering country teams; improving program and project design by greater mainstreaming of crosscutting issues; systemic use of results-oriented logical frameworks; more effective beneficiary participation; more streamlined loan conditionalities; improved quality of supervision; greater delegation of authority and accountability; and greater reliance on national procurement systems that conform to internationally recognized standards.

xi. The Action Plan also envisages the following measures to further strengthen *the quality of the Bank's operations*: use of the Annual Project Performance Report (APPR) to develop Country Portfolio Improvement Plans (CPIPs) for countries with elevated levels of projects-at-risk; expanded economic and sector work (ESW) in close collaboration with sister institutions; timely completion of Project Completion Reports (PCRs) and systematic incorporation of lessons learned from post-evaluation exercises in the design and implementation of new projects and programs.

xii. With respect to actions for enhancing *development effectiveness and partnerships*, a central component of the Action Plan is to help the Bank become a Results-Based Management (RBM) institution. The measures that will be taken in this regard include the implementation of the RBM Action Plan and training of staff in RBM. Another major area of focus will be the harmonization of activities with other donors within RMCs.

xiii. The Action Plan also envisages strengthening the Bank's capacity to undertake an expanded *program of applied research* by recruiting additional researchers and by establishing the Office of the Chief Economist. The research program will be focused on the operational priority areas of the Bank and will seek close collaboration with other institutions to avoid duplication of efforts.

xiv.  The Action Plan also includes measures for the implementation of the Bank's revised *Communication Strategy*. In addition, it calls for updating regularly the Disclosure of Information Policy.

xv. Participants welcomed the Action Plan and requested the Fund to fully implement it and submit a progress report during the mid-term review of ADF-X.

### **The Strategic Orientation and Policy Objectives of Fund Operations under ADF-X**

xvi. Participants agreed that the overarching objective of Fund operations under ADF-X would remain that of reducing poverty, improving living standards, and promoting sustainable and equitable economic growth.

xvii. With respect to policy objectives, Participants agreed on the following:

- *Greater Selectivity.* The Fund should undertake further work to clarify its comparative advantage and further define the key critical areas for intervention.
- *Enhancing Country Ownership.* The Fund should continue to promote country ownership in the design and implementation of its interventions.
- *Allocation of Fund Resources.* The allocation of resources to countries should continue to be based on performance, with the bulk of resources going to good performing countries, as measured by the Bank's CPA system
- *Debt Sustainability.* The new IMF/World Bank debt sustainability framework, as applied to the Fund, would guide the financing terms for ADF resources.
- *Improved Donor Coordination and Partnerships.* The Fund should continue to strengthen its strategic partnerships and in-country coordination with other development partners, both multilateral and bilateral.
- *Support to Post-Conflict Countries.* The Post-Conflict Country Facility (PCCF) should be used in the context of internationally agreed programs and on a case-by-case basis.
- *Transparency and Anti-Corruption.* The Bank should take additional steps to enhance institutional transparency and be a leader in this regard among its sister institutions.

### **The Operational Priorities of the Fund under ADF-X**

xviii. Participants agreed that the operational priority areas for ADF-X would be the following.

- *Agriculture and Rural development*: While giving high priority to this sector, the Fund, should, however, delineate more precisely its areas of comparative advantage and focus in this sector.
- *Education*: The Fund should focus on policy reform, primary education, adult literacy and numeracy, and promotion of vocational and technical training.
- *Health*. The focus of the Fund should be on improving primary healthcare delivery and enhancing access to essential health services.
- *Rural Water Supply and Sanitation*. At the country level, the Fund's role should be defined within the framework of priorities and strategies adopted by countries.
- *Private Sector Development*. The Fund should place high priority on the development of the private sector in ADF countries, as this is critical for accelerating economic growth, increasing productivity and incomes, and reducing poverty. Particular focus should be given to Small and Medium Enterprises (SMEs) and microfinance,
- *Good Governance*. The Fund should take a leadership role and focus its operations on fiscal management, accountability and transparency; capacity building for local administrations and decentralization where conditions permit; legal and regulatory reform, and judiciary and law enforcement capacity building; land tenure and property rights reforms; corporate governance; anti-corruption; and anti-money laundering.
- *Regional Economic Cooperation and Integration*. The Fund should continue to play a leading role to promote regional cooperation and integration arrangements, particularly in the context of the NEPAD initiative.
- *Gender Mainstreaming*. The Fund should implement effectively its *Gender Policy* and its recently launched *Gender Plan of Action*.
- *Environment Mainstreaming*. The Fund should continue to promote the sustainable management of scarce natural resources within the context of its new Environment Policy.
- *Capacity Building*. The Fund should intensify its capacity building efforts and, as importantly, adopt a more strategic approach by incorporating capacity building concerns and issues in CSPs.
- *Post-Conflict Assistance and Arrears Clearance*. The Fund's assistance to post-conflict countries should focus on socio-economic reintegration programs, the rehabilitation of basic social and economic infrastructure, and the promotion of good governance in the framework of internationally agreed programs and in close collaboration with the Bretton Woods institutions.

### **Country Eligibility, Resource Allocation System, and ADF Financing Terms**

xix. Participants agreed that the poorest countries should continue to be the major beneficiaries of ADF resources, while underscoring country creditworthiness, performance, and per capita GNP as the fundamental criteria of eligibility to receive Fund resources. Country creditworthiness will continue to be based on criteria being used by the World Bank until such time as the Fund develops its own policy assessment.

xx. Participants underscored the importance of giving priority in the allocation of resources to poor countries that have demonstrated their commitment to poverty reduction,

sound policies, good governance, the rule of law and robust institutions, the strength of which is the key determinant of the effectiveness of external assistance.

xxi. Participants agreed that the terms of ADF-X financing would be based on an analysis of each country's prospect for debt sustainability and that the Fund would rely on the agreed IMF/World Bank debt sustainability framework as applied to the Fund.

xxii. [Deputies agreed to compensate the loss of reflows to the Fund as a result of higher levels of grants by ... ]

### **Mid-Term Review**

xxiii. Participants agreed that there would be a review of Fund operations not later than 18 months after the effectiveness of the replenishment, and before release of the last tranche.

### **Target Replenishment**

xxiv. At the conclusion of the consultations, Deputies agreed on a target Replenishment level of UA ... billion for the period 2005-07, including internally generated resources of UA 532 million during the ADF-X period.

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# AFRICAN DEVELOPMENT FUND



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ADF-X/CM.4/2004/03/Rev.2

## ADF-X

*A Partnership for Poverty Reduction and Economic Growth in Africa*

### **Report of the Consultative Meetings on the Tenth General Replenishment of the African Development Fund**

*(Revised Draft.2)*

**Consultations on ADF-X**

**16-17 December 2004**

**Copenhagen, Denmark**

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## **List of Abbreviations**

ADB	African Development Bank
ADF	African Development Fund
ADF-X	Tenth General Replenishment of the African Development Fund
ADI	African Development Institute
APRM	African Peer Review Mechanism
CDP	Country Dialogue Paper
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
ICSP	Interim Country Strategy Paper
IMF	International Monetary Fund
JAI	Joint Africa Institute
MDGs	Millennium Development Goals
MSMEs	Micro, Small and Medium-Scale Enterprises
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
PBL	Policy-Based Loan
PCR	Project Completion Report
PPP	Public–Private Partnership
PRSP	Poverty Reduction Strategy Paper
RBM	Results-Based Management
RISP	Regional Institutional Strategy Paper
RMC	Regional Member Country
RSP	Regional Strategy Paper

## **I. Introduction**

1.1 Since its establishment in 1973, the African Development Fund -- representing an enduring partnership for development between African countries and ADF donors -- has become an important source of funding and technical assistance for some 40 low-income countries on the Continent. By the end of 2004 -- the conclusion of the ADF-IX cycle -- the Fund would have made UA 15.8 billion available to these countries.

1.2 In recent years, the Fund has focused its activities on supporting the poverty reduction and economic growth efforts of its regional member countries (RMCs). It has provided financing and technical support for projects and programs in its priority areas as delineated in the 1999 Vision Statement of the Bank Group and in its 2002 Strategic Plan. The Fund has also become a key player in regional cooperation and integration efforts, including, in particular, the New Partnership for Africa's Development (NEPAD). In addition, it has recently launched a Rural Water Supply and Sanitation Initiative (RWSSI) with the goal of helping its regional member countries achieve access to potable water and clean sanitation for at least 80 percent of their population by 2015. Further, it has created a facility to assist post-conflict countries clear their arrears with the Bank Group in the context of coordinated international efforts, thus enabling them to re-engage with the international community.

1.3 In the course of 2004, State Participants in the Fund and representatives of borrowing countries (hereafter jointly referred to as participants) held consultations on the Tenth Replenishment of the General Resources of the Fund (ADF-X).<sup>1</sup> They reviewed the progress that the Fund had made in recent years, and, in this connection, considered the independent evaluation of the Fund under its VII, VIII, and IX replenishment cycles.<sup>2</sup>

1.4 As presented in the evaluation report, participants welcomed the progress that the Bank Group had made in implementing major reforms, developing a comprehensive and coherent policy framework to guide its operations, and strengthening its project design and portfolio management systems to improve the quality of its services. They took note of the conclusion of the evaluation report that while there is much unfinished business, the Bank Group has now put in place most of the essential platforms for it to play an increasingly central role in building a better future for Africa.

1.5 Participants requested that the Fund develop an Action Plan to further improve the implementation of its projects and to respond to the recommendations of the independent evaluation report. Participants reviewed the Plan that was prepared (see Annex VII) and requested the Fund to fully implement it. They also requested the Fund to submit a progress report for the mid-term review of ADF-X.

1.6 In addition, participants provided guidance on the overall strategic orientation, policy objectives, and priority areas for Fund operations under ADF-X. They also stipulated the country eligibility criteria for access to ADF resources by regional member countries. Further, they agreed that in order to reduce the risk of the emergence of new debt distress in the future,

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<sup>1</sup> They held four meetings under the chairmanship of Mr. Sven Sandström, a former Managing Director of the World Bank. The four meetings were in: Geneva, Switzerland, 16-17 February 2004; Kampala Uganda, 27-28 May 2004; Tunis, Tunisia, 16-17 September 2004; and Copenhagen, Denmark, 16-17 December 2004. See Annex III for a list of working documents prepared for these meetings.

<sup>2</sup> Deputies had commissioned the study at the conclusion of the ADF-IX replenishment.

the ability of ADF countries to sustain concessional debt would be the basis for ADF financing terms, including the level of grants. In this regard, the Fund would be guided by its application of the IMF/World Debt Sustainability Analysis. Participants also agreed that the Performance Based Allocation (PBA) system that the Fund had developed, modified as appropriate, would continue to provide the basic framework for allocation of Fund resources to individual countries.

1.7 Deputies agreed on a target replenishment level of UA ... billion for the period 2005-2007. The significant increase of ... percent over the ADF-IX replenishment level signifies the wish of ADF State Participants to see the Fund evolve into a strong regional institution capable of providing even higher quality services to its regional member countries and providing leadership on key development issues.

1.8 This report, representing the outcome of their consultations, summarizes the directives and guidance that participants provided for the ADF-X replenishment period (2005-07). It will serve as the basis for updating the Fund's Policy Guidelines for ADF Operations during the ADF-X period. Management will submit for the approval of the Board of Directors revised Policy Guidelines together with a Policy Implementation Matrix to guide the operations of the Fund under ADF-X.

## **II. The Challenge of Economic Growth and Poverty Reduction in Africa**

2.1 In assessing the economic and social development prospects of ADF-eligible countries, participants agreed that this is best done against the benchmarks set by the internationally agreed Millennium Development Goals (MDGs). In this regard, they noted the findings of a number of studies warning that, of the world's developing regions, Sub-Saharan Africa is the one region that will have the greatest challenge in attaining the MDGs.<sup>3</sup> On present trends, while some African countries may reach some of the goals related to education and health, only a handful, if any, are likely to meet the goal of reducing by half, by 2015, the number of people living below the poverty line.

2.2 In spite of these uncertain prospects, participants noted the considerable progress that many African countries had made in implementing sound macroeconomic policies and in undertaking major structural reforms, often with support from the Bretton Woods institutions and the Bank Group. Further, an increasing number have formulated Poverty Reduction Strategy Papers (PRSPs), mostly in a participatory manner involving major stakeholders. The poverty reduction strategies are being broadened to ensure coherence of sectoral policies with macroeconomic objectives. In addition, the PRSPs have become major instruments for coordinating donor assistance, thus becoming important vehicles for reducing the transaction costs of donor assistance. These measures have resulted in an increasing number of ADF countries achieving higher GDP growth rates – with some 14 ADF countries registering GDP growth rates exceeding 5 per cent in 2003.

2.3 Participants noted, however, that the pace of reform programs and their outcomes varied considerably across countries. While much progress has been made in reducing macroeconomic imbalances, the pace of structural reforms, such as making the investment climate more attractive, improving systems of governance, devolving power to local authorities and giving

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<sup>3</sup> See in particular the 20002 *Global Poverty Report, Achieving the Millennium Development Goals in Africa*, prepared by the Bank in collaboration with the World Bank and inputs from the other regional development banks.

voice to the poor in decision-making processes, has been uneven. Participants were of the view that these differences in the pace of reforms accounted in large part for the variations in economic and social progress across ADF countries.

2.4 Participants noted that main development challenges facing ADF countries today include: accelerating the pace of economic growth while ensuring that such growth is pro-poor, contributes to an improvement in the distribution of income, and is environmentally sustainable; allocating additional resources to the social sectors while improving the efficiency of their delivery; mobilizing additional domestic as well as external financial resources to meet the financing gap for development; and meeting the special challenge posed by the HIV/AIDS pandemic.

2.5 In the light of these challenges, participants urged ADF countries to continue to implement prudent macroeconomic policies, deepen their structural reform efforts, and promote a better distribution of income. In particular they urged ADF countries to continue to give a high priority to investments in health and education and to improving governance systems, as these create the foundations for long-term equitable economic and social development. Participants also urged ADF countries to continue their efforts to improve the investment climate for both domestic and foreign investors, as the private sector – and in particular small and medium enterprises (SMEs) – is the engine for raising economic growth rates and creating employment opportunities. In this regard, participants stressed the importance of legal and judicial reforms to protect property rights, modernize commercial laws, and ensure the timely enforcement of contracts.

2.6 Participants welcomed the progress made in recent years with the NEPAD initiative, including the establishment and commencement of the African Peer Review Mechanism (APRM) to which a large number of countries have already subscribed. They welcomed the impetus that NEPAD has given to regional cooperation and integration efforts and urged African countries to further deepen such efforts.

2.7 Participants recognized that, given their low incomes, ADF countries continue to face large resource gaps, with donors financing up to three-quarters of their development or capital budgets. And while donor assistance would be required for sometime to come, participants stressed the importance of increased self-reliance over time. In this light, they urged ADF countries to strengthen fiscal mobilization and support faster development of their private sectors that would facilitate the mobilization of domestic resources by raising the domestic saving rate and by developing more efficient financial institutions. In addition, participants encouraged ADF countries to take steps to improve the legal and judicial systems necessary to mobilize higher volumes of foreign and domestic capital.

### **III. Fund Operations and the Findings of the Independent Evaluation Report of ADF VII, VIII, and IX**

3.1 Participants reviewed the report of the independent evaluation of ADF VII, VIII, and IX that they had commissioned during the ADF-IX consultations. The evaluation had as its main objective to assess the extent to which the ADF has put in place strategic objectives, organizational structures, policies, lending instruments and systems capable of delivering development effectiveness on a continent-wide basis and to provide general recommendations for the future and specific suggestions for ADF X.

3.2 Participants welcomed the major conclusions of the independent evaluation report that the Bank Group, after undergoing intensive and continuous reform for eight years -- often under difficult conditions -- had:

- *Established a more effective organization:* Within the resource constraints, the Bank's two re-organization exercises have created a focused and effective institution that has equipped itself as far as possible to meet the development challenges of the 21st century.
- *Formulated new policies and strategies:* The Bank is now equipped with a high quality policy toolkit that is based on current development thinking and that generally reflects the state of the art in development.
- *Improved process and quality control mechanisms:* The architecture required for effective and efficient quality control is now in place through the enhancement of Country Strategy Papers (CSPs), improved quality at entry standards and safeguards, and a system of monitoring and evaluation that can encourage and allow for continuous learning, ongoing adjustments to meet new and unforeseen needs and feedback into decision making processes.

3.3 However, despite these achievements the evaluation also noted that much unfinished business remains. More specifically, participants noted that the evaluation report provides the following assessment of the Bank Group's progress.

3.4 *Organizational and Structural Responses.* The Bank Group has undertaken two major reorganizations since 1996, with the second implemented at the start of 2002 and having as its goal giving the institution the organizational capacity to fully operationalize its 1999 *Vision Statement*. While the 2002 reorganization has done much in reinforcing long-term strategy, the Bank Group, nonetheless, continues to face difficulties in several areas. These include: serious understaffing throughout the Bank; a lessening of country focus despite the creation of country teams; limited research and knowledge-generating capacity; and limited progress in the devolution of authority. In addition, the Bank has lagged behind other institutions in decentralizing its operations.

3.5 *Policy Responses.* Over the review period, the Bank has produced an impressive range of new policies and guidelines, with approximately 40 major policies and guidelines having been approved by the Board since 1995. The policies clearly reflect contemporary development thinking and are situated squarely in the context of current international discourse on development. Overall, and although there is still room for improvement, the Bank now has a solid portfolio of policies. They are up to international standards, clearly written, well argued, and provide an ambitious framework for the Bank's work in Africa. There is little or no need for new policies. The essential building blocks are in place and energies should now be concentrated on a phase of consolidation and application. Notwithstanding its array of new policies, the comparative advantage of the Bank tends, however, to be asserted as self-evident rather than demonstrated.

3.6 *Programming Instruments and Processes.* Country Strategy Papers (CSPs) have become the primary strategic planning document of the Bank Group and the process of their preparation and their quality has improved steadily. They now are linked to both the Bank's *Vision* and the *Strategic Plan*. Further, recent CSPs demonstrate a consistent and solid relationship between program choices, country resource allocations, and PRSPs, as well as increased use of poverty diagnostics and poverty reduction outcome indicators. Most CSPs have also been prepared in a participatory manner through workshops, consultations and

feedback sessions. Selectivity has also greatly increased and the Bank is clearly trying to focus on its areas of comparative advantage. Despite these advances, the economic and sector work associated with CSPs remains for the most part inadequate and requires upgrading.

**3.7 *Performance-Based Allocation Framework.*** Since 1999, the Bank has consistently applied a Performance-Based Allocation System conscientiously to allocate ADF resources. Significant allocation adjustments have occurred, both up and down, in response to assessed performance. During its short life, the system has already benefited from enhancements and adjustments. Additional enhancements, such as refinements of the governance and public sector performance criteria and refinements in country performance triggers could, however, be considered.

**3.8 *Project Design and Evaluation Methodology and Review Process.*** Since 1998, the Bank has initiated a process of change aimed at improving entry quality and consistency that included the revision of the *Operations Manual*, the production of guidelines for the application of sector and crosscutting policies; training of Bank staff and officials of regional member countries on how to incorporate cross-cutting themes and disbursement and procurement procedures; introducing an improved management information and reporting system; introducing a new results-orientated format for logical framework analysis; and preparing a new supervision format. Quality at entry does appear to be improving but more attention will need to be given to measuring results and to the application of the logical framework analysis to the formulation and supervision of the Bank's operations. Further, although new requirements for project and program review were introduced in 2002, and although the new system is less cumbersome than its predecessor, further attention is required to make the review process truly inter-departmental and making it more rigorous and transparent.

**3.9 *Lending and Non-Lending Instruments.*** Bank Group activities remain predominantly grounded in project lending to the public sector although the other multilateral development banks have moved towards program and sector-wide loans, adjustment operations, institutional development, and policy dialogue. This is due principally to numerous constraints including a shortage of economists, weak research capabilities, limitations in economic and sector work, and unfinished work to promote harmonization with donor partners. The relative absence of country presence and the ability to engage in ongoing policy dialogue is also an important factor. The institutional weakness of the financial sector in many of the regional member countries will, however, also continue to act as a major impediment to the application of such instruments.

**3.10 *The ADF Portfolio and Monitoring and Evaluation.*** The Bank has established a solid architecture and introduced the full range of instruments required for an effective, institution-wide monitoring and evaluation system. In structure, policy instruments and modalities now compare favorably with those of other multilateral development institutions. On the application side, however, the system remains very much a work in progress and further actions will be required before the benefits of the new system can be realized.

**3.11 *Conclusion and Recommendations.*** The independent evaluation report concludes that the unfinished business of the reform effort can best be approached through incremental steps and fine-tuning. With additional human and financial resources, the Bank Group can indeed move forward to fulfilling its goal of becoming the premier institution for African development.



#### **IV. The Action Plan to Improve ADF Operations during the ADF-X Cycle and Implement the Recommendations of the Independent Evaluation Report**

4.1 At the request of participants, the Fund has prepared an Action Plan to improve ADF operational effectiveness during the ADF-X cycle and to implement the recommendations of the independent evaluation report. The Plan's specific goals are to: improve the organizational capacity and responsiveness of the Bank; improve the quality of the management of the ADF portfolio; strengthen further the quality of the Fund's operations; enhance the development effectiveness of Fund operations; and strengthen the Bank's research capacity and its communication strategy. Participants noted that in order to meet these goals, the following specific actions have been proposed in the Action Plan.

##### *Actions Related to the Enhancement of the Organizational Capacity and Responsiveness of the Bank*

4.2 The proposed actions include: (i) increasing significantly staffing levels, particularly in the operational departments; (ii) improving the skills mix of staff; (iii) enhancing the training of staff in key competencies; (iii) implementing an accelerated decentralization program, with delegated authority on procurement and disbursement matters commensurate with maintaining appropriate financial controls; and (iv) improving coordination with donors at the country level.

4.3 *Recruitment, Staffing Levels, and Skills-Mix.* The Bank re-launched its recruitment drive in 2004 that had been suspended due to the temporary relocation of the Bank to Tunis in 2003. With the recruitment of some 100 professionals in 2004, the drive has led to a reduction in vacancy rate to about 9 percent at the end of the year as compared to 19 percent at the start. Further efforts will be made to keep the vacancy rate at under 5 percent. In addition, to enable the Bank to fully implement the recommendations of the independent evaluation report, the Bank is planning to increase significantly its complement of professional staff positions over the period 2005-2007 in conjunction with efforts to improve efficiency and achieve savings in non-operational areas. The lowering of the vacancy rate and the recruitment of additional staff are expected to relieve the serious understaffing that the evaluation report had noted. Priority in the allocation of new positions would be given to key areas identified in the independent evaluation report, with about half assigned to the Operation Departments. In this regard, participants encouraged the Bank to develop a new career development plan for senior managers with particular reference to field-office experience.

4.4 *Staff Training.* In addition, the Bank will expand its staff training program and focus on key competencies related to improving project design and implementation. This will include training in the following priority areas: results-based logical frameworks as a project evaluation tool at all stages of the project cycle; design and use of a results-based country programming approach; results-based management; financial analysis and management; monitoring and evaluation; participatory approaches; and procurement and disbursement administration consistent with the emerging international framework to develop effective procurement systems in developing countries. In addition, training in project management, monitoring of project activities, and procurement and disbursement rules and procedures will be expanded for officials in regional member countries to help them reach internationally recognized standards. The Action Plan proposes to train every year approximately 500 staff of program/project executing agencies.

4.5 *Decentralization.* Another major initiative is the accelerated decentralization program that has been approved by the Boards of Directors in 2004. The program calls for increasing the Bank's presence in regional member countries by aiming to open 8 offices in 2005 and another 8 in 2006, in addition to the existing 9 offices bringing the total to the 25 that the Boards of Directors had approved in 1999. The decentralization strategy also calls for greater delegation of authority in procurement and disbursement administration while maintaining the Bank's appropriate standards and controls. Further, with adequate staffing and skills-mix, the country offices are expected to have a more prominent role in country dialogue. They are also expected to strengthen strategic partnerships with donors as well as assist in the implementation of the harmonization agenda at the country level. While welcoming the accelerated decentralization program, participants stressed that the program would need to be undertaken in a prudent manner to assure the required standards and effectiveness of the new country offices.

#### *Actions Related to Improving the Quality and Management of the Portfolio*

4.6 *Internal Review Process.* To improve the quality of projects at entry, the internal review process has been revised to ensure that project/program designs conform to set quality standards and are compliant with policies and guidelines, legal covenants, procurement and disbursement rules, ADF directives, and international best practice. The review process has been made less cumbersome and more focused on strategic areas. It also promotes both internal and external peer reviews with the involvement of senior sector and thematic experts. In addition, experienced staff will be assigned to this important task and targeted training will be provided to strengthen quality assurance.

4.7 *Country Programming and Country Focus.* Efforts will also be made to enhance country programming and country focus. Additional steps will be taken to continue to align CSPs with the priorities of Poverty Reduction Strategy Papers (PRSPs). Country and thematic teams will be reinforced and empowered and new terms of reference for their function will be issued. This will also be reflected in the revised delegation of authority matrix. At the country level, the focus of technical support will now be on helping countries align their national budget expenditures to PRSPs. The Fund's assistance to budgetary support processes will also be strengthened in countries where adequate macroeconomic, fiduciary and budgetary systems together with strong implementation and monitoring mechanisms exist.<sup>4</sup>

4.8 *Design of Programs and Projects.* The design of programs and projects will be enhanced by a greater mainstreaming of crosscutting issues. This will be achieved by the recruitment of additional experts in the areas of gender, population, and environment to improve the skills mix of project preparation, appraisal and supervision missions. Systematic use will also be made of a results-oriented logical framework, with impact and outcome indicators incorporating risk analysis and sustainability assessment. More attention will also be given to mobilizing effective beneficiary participation in project design and implementation. The first Quality-at-Entry Assessment (QEA) report to examine the quality of indicators will be prepared during the second quarter of 2005.

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<sup>4</sup> See Section 2 of Annex I (Matrix) -- of the Action Plan. (Annex VI of this Report).

4.9 Efforts will also be directed at ensuring that loan conditionalities are appropriate to promote project start up and effectiveness. Accordingly, loan conditionalities will be streamlined and more efforts will be made to assist and guide regional member countries to meet them before appraisal reports are presented to the Board. Further, in line with the practice at the World Bank, the Fund will consider single tranche approach for Policy-Based Loans and Budget Support operations in those instances where appropriate policies and fiduciary controls are in place. [In addition, the minimum loan size will also be increased in line with the trend towards more involvement in Sector Wide Approaches and Budget Support Programs.]

4.10 *Project/Program Supervision.* The quality of the supervision process will be upgraded by continuing to improve the skills-mix of supervision missions. The on-going recruitment of new staff and the continuous training of staff will contribute to strengthening staffing levels and improving the skills mix for supervision. The targets of 1.5 supervisions per year for satisfactorily performing projects and 2 supervisions for problem operations will be maintained. In addition, the supervision format will be revised to give greater weight on the attainment of project results and outcomes. Further, mid-term reviews will be undertaken more systematically and with the right skills mix and with sufficient duration to address on time structural defects in project design and implementation. A Quality of Supervision Assessment (QSA) procedure will be introduced as a tool to assess and monitor supervision effectiveness.

4.11 *Delegation of Authority and Accountability.* The Delegation of Authority Matrix has been revised and re-launched to give managers and country teams more authority on project design, management, procurement and disbursement matters. Additional training will be provided to sensitize staff and managers and to promote uptake of authority and decision making power. And while country offices will be expected to play an enhanced role in the administration of procurement and disbursement activities, efforts will be made to ensure that the Bank maintains its critically important fiduciary controls.

4.12 *Procurement and Disbursement Administration, Project Audit, and Portfolio Clean Up.* The Bank will continue with its efforts in training both Bank and regional member country staff in procurement and disbursement rules and procedures to support a move towards greater reliance on national procurement systems that conform to internationally recognized standards. Country offices will also be delegated with more procurement and disbursement authority and procurement specialists will be recruited for the Operations Complexes. However, steps will be taken to maintain the Bank's stringent procurement and financial controls.

4.13 Other measures that will be taken to improve project implementation include steps to ensure the regular submission of project audit reports and systematic follow-up of audit report recommendations. In addition, a portfolio clean up exercise has been launched to identify completed projects with unused balances, persistent problem projects, aging projects and technical assistance operations, and projects with slow disbursement rates with a view to either canceling them or setting a final irrevocable closing date.

*Actions Related to further strengthening the Quality of the Bank's Operations*

4.14 *Portfolio and Sector Improvement Plans.* In addition to the specific measures indicated above, the Bank would also undertake other steps to improve the quality of its

operations. Based on the Annual Project Performance Report (APPR), Country Portfolio Improvement Plans (CPIPs) will be required annually for countries with elevated levels of projects-at-risk. In addition, Sector Portfolio Improvement Programs (SPIPs) for the agriculture and rural development and transport sectors will be prepared. The SPIPs will review portfolio performance improvement from strategic and long-term perspectives, to help overcome long-standing structural weaknesses and constraints.

4.15 *Economic and Sector Work (ESW)*: Efforts will be made to expand the Bank's economic and sector work while at the same time enhancing its quality and relevance. Towards this end, the Bank will develop its own specialized capacity in this area through the recruitment of more economists and sector specialists and the allocation of more resources. However, to the extent possible, the Bank will undertake such work collaboratively with sister institutions. Accordingly, it will share its ESW with these institutions and also seek to get better access to their work.

4.16 *Post-Evaluation*: To ensure that the lessons drawn from post-evaluations are systematically incorporated into the design of new projects and programs, measures will be instituted to clear the backlog of project completion reports (PCRs) and systematically program the completion report preparation process to ensure adequate coverage. In addition, PCR guidelines will be reviewed to deepen the analysis on performance and sustainability factors and overall evaluation of development results. In addition, efforts will be made to improve the analytical quality of the completion and performance evaluation reports and the relevance of the lessons learned for the design and implementation of future operations. The Operations Evaluation Department will prepare an Annual Development Effectiveness Report starting and disseminate in 2005 the main lessons learnt and best practices.

#### *Actions for Enhancing Development Effectiveness and Partnerships*

4.17 A central component of the Action Plan will be to help the Bank become a Results-Based Management (RBM) institution. The measures that will be taken in this regard include the implementation of the RBM Action Plan and training of staff in RBM. Another major area of focus will be the harmonization of activities with other donors within RMCs under the framework of the "good practice principles".

4.18 *Results-Based Management Action Plan*: The plan lays out the activities that will be undertaken for the Bank to have a smooth transition to RBM processes. The implementation will include components such as raising staff awareness, an information technology upgrade schedule, change management activities, and staff training. Other measures include: development of results-oriented tools, such as enhanced logical frameworks; development of a results-based CSP format; the upgrading of the supervision report format that will increase the focus of supervision on managing for results, and not just managing for inputs. By the ADF-X mid-term review, all projects, proposals, and strategies coming to the Board will contain a results-based framework. In addition, the Bank will continue to fully participate in the global partnership on Managing for Results (MfR).

4.19 Participants also called on the Fund to provide assistance to regional member countries to become more results-focused. Such assistance could include: helping in the development of clear indicators of outcomes in PRSPs; alignment of budgetary expenditures with PRSPs, country development objectives, and the MDGs; making public expenditure management systems more results focused; supporting work on identifying outcome

indicators through appropriate economic and sector work (ESW); and assistance in building results-based monitoring and evaluation systems. In this connection, participants welcomed the support that the Fund is providing to regional member countries to build up their statistical capacity in the context of the International Comparison Program (ICP).

4.20 *Harmonization Action Plan:* As the focus on implementation increases, the Bank will promote harmonization to help reduce compliance costs for borrowers, while maintaining the Bank's important policies, fiduciary controls, and standards. It will also work closely with its partners in the quest for operational quality. In accordance with the recommendations of the Rome High-Level Forum, the Bank is developing a Harmonization Action Plan to be considered by the Boards of Directors. The Plan includes operational activities aimed at mainstreaming the international harmonization agenda both within the Bank Group and in RMCs, as well as the development of appropriate indicators for the monitoring and evaluation of implementation of the Rome Agenda.<sup>5</sup> The Bank will implement fully the Action Plan during the ADF-X cycle, while taking into account the outcome of the forthcoming second High-Level Forum on Harmonization planned for March 2005.

#### *Action for Strengthening the Banks' Research Capacity and Program*

4.21 The Bank will strengthen its capacity to undertake an expanded research program focused on its operational priority areas and towards this end it will recruit additional researchers. It will also establish the Office of the Chief Economist to direct the research work, coordinate research with the economic and sector work (ESW) of the Operations Departments, institute a system of peer review of the Bank's economic work, and promote continuous training and upgrading of the skills of the Bank's economists.

4.22 The Bank will submit to the Board of Directors in January 2005 its expanded program of applied research. The program will be directly relevant to the Bank's operations and will focus on themes such as: public sector management; agriculture and food security; water and sanitation, financial sector development; and international trade and regional integration. In addition, the research work will focus on an analysis of progress at the macroeconomic level to assess the factors behind the performance of African economies and their prospects and to get a better understanding of their dynamics. To avoid duplication of efforts, the Bank will strengthen its relations with other research institutions -- and in particular with those that it supports -- as well as the Bretton Woods institutions and, to the extent possible, it will establish collaborative research programs. The International Comparison Program (ICP) that the Bank is implementing with other partner institutions is expected to generate more reliable data for the Bank's research work.

#### *Communications Strategy and Information Disclosure Policy*

4.23 A revised Communication Strategy has been prepared by the Bank and will be implemented beginning in 2005. The overarching objectives of the strategy is to secure greater public knowledge and understanding of the Bank's work and activities, deepen public recognition of the Bank role in the development of African countries, and enable the Bank to serve as a base of knowledge on African economic and social development. In addition, the Disclosure of Information Policy will be updated regularly to ensure it is following best

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<sup>5</sup> See Section 3.2 of the Matrix (Annex I of the Action Plan) for the targets and indicators for the harmonization agenda.

practice and serving as a transparency leader across IFIs. A critical component to this communication strategy will be a significantly improved website regarding both content and accessibility.

### *Monitoring and Evaluation of the Action Plan*

4.24 The Action Plan includes detailed time-bound actions that the Bank will monitor closely. Bank Departments will prepare semi-annual progress reports in the areas of their responsibility. Semi-annual reports summarizing the progress made will also be prepared for the Board's information. A mid-term review of the implementation of the Action plan, which will be based on the listed key indicators for evaluation will focus on determining the extent to which the key benchmarks and outcomes have been achieved.<sup>6</sup> It will also identify the additional actions that may need to be taken to keep the Action Plan on track.

4.25 Participants welcomed the Action Plan. They also took note that the Board of Directors will consider a proposal on a 2005-2007 Strategic Resource Framework to strengthen the human and organizational capacity of the Bank to enable it to implement the Plan as well as the recommendations of the independent evaluation report. In this regard, participants urged the Bank to seek to be cost-effective by seeking to maximize internal productivity gains. Participants requested the Fund to fully implement the Action Plan and submit a progress report during the mid-term review of ADF-X.

## **V. The Strategic Orientation and Policy Objectives of Fund Operations under ADF-X**

### *Strategic Orientation*

5.1 Participants agreed that the overarching objective of Fund operations under ADF-X would remain that of *reducing poverty, increasing living standards, and promoting sustainable and equitable economic growth*. Poverty remains widespread in Fund countries, even in those that have begun to register accelerated GDP growth, and where notable increases in per capita incomes have been observed in recent years. The Fund's focus on poverty reduction and productivity growth is also in line with the efforts of countries to achieve the MDGs, as detailed in their PRSPs.

### *Policy Objectives*

5.2 *Greater Selectivity.* Participants strongly urged the Fund to undertake further work to clarify its comparative advantage in order to increase precision and focus in the areas of its operations. A report on its findings will be submitted for the mid-term review of ADF-X. And while welcoming the greater selectivity shown in the new generation of CSPs, participants nonetheless underscored the importance of the Fund further defining the key critical areas for intervention within each priority area. In particular, the Fund should also continue to enhance its coordination and collaboration with other multilateral and bilateral development partners.

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<sup>6</sup> See Annex I of the Action Plan the (Action Plan Matrix).

5.3 *Enhancing Country Ownership.* Participants welcomed the Fund's efforts to promote country ownership in the design and implementation of its interventions. As noted in the independent evaluation report, CSPs, projects and programs have increasingly been prepared in close consultation with all stakeholders and have been aligned to PRSPs to reflect country priorities. The new generation of CSPs as well as projects and programs also draw on the poverty diagnostics, sectoral priorities, and outcome indicators articulated in poverty reduction strategies. In line with the Action Plan, participants called on the Fund to continue to emphasize such approaches and to base its work on broad-based participatory approaches. To this end, they urged the Fund to make greater use of the Internet, e-mail, and the Bank's website to facilitate dissemination of draft documents to stakeholders and to receive comments and suggestions for incorporation in the final documents.

5.4 *Allocation of Fund Resources to Countries.* Participants stressed that the allocation of resources to countries should continue to be based on performance, with the bulk of resources going to good performing countries, as measured by the Bank's CPA system. They also called for improved coordination with other MDBs in order to further refine the CPA and to make it fully transparent.

5.5 *Debt Sustainability.* Participants agreed on the importance of debt sustainability and the need to avoid excessive debt levels that could have a negative impact on growth. They also agreed that the new IMF/World Bank debt sustainability framework would guide the financing terms for ADF resources.<sup>7</sup>

5.6 *Improved Donor Coordination and Partnerships.* Participants welcomed the actions already taken to collaborate with other IFIs, particularly the World Bank, as well as bilateral and multilateral development agencies in such areas as managing for results and promoting harmonization where high standards can be maintained. They welcomed the stress placed in the Action Plan to continue such efforts and encouraged the Fund to continue to strengthen its strategic partnerships and in-country coordination with other development partners, both multilateral and bilateral.

5.7 *Support to Post-Conflict Countries.* Participants welcomed the creation and the approval by the Boards of Directors of a Post-Conflict Country Facility (PCCF). In close coordination with the Bretton Woods Institutions, the Facility would assist post-conflict countries clear their arrears and re-engage with the international community. Deputies agreed to allocate UA ... million from the ADF-X Replenishment for this facility. Of this UA 55 million will be used to reimburse against the amount advanced from the ADF-IX resources as a seed contribution to the PCCF to facilitate its early launching. Participants stressed the importance of using the resources of the facility on a case-by-case basis, to assist those post-conflict countries that meet the criteria established by the Fund.

5.8 *Transparency and Anti-Corruption Measures.* Participants urged the Bank to take additional steps to enhance its institutional transparency and be a leader in this regard among its sister institutions. In this light, they welcomed the Board's recent decision to disclose the minutes of their Board meeting with material deemed too sensitive for public distribution redacted. Such measures promote greater accountability and better results. The Bank should use its web site to provide information on proposed projects, sector strategies, sector policies and country strategy papers. The final versions of strategy and policy proposals prepared for

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<sup>7</sup> See Section VII below for more details on the Debt Sustainability Framework.

Board endorsement or approval shall be made available to the public 15 calendar days before consideration by the Board, or if not then available, when the documents are distributed to the Board. The appraisal reports on projects will be made available to the public immediately after the Board approval. The Bank should also publish on the website specific indicators and results of projects and programs, both periodically during the execution and at their completion. Participants noted that a proposal on the establishment of Anti-Corruption and Investigation Unit is under Board consideration and procedures for reporting on allegations of fraud and corruption will be decided in that context.

## **VI. The Operational Priorities of the Fund under ADF-X**

6.1 Participants agreed that the operational priority areas for the Fund under ADF-X would remain substantially the same as under ADF-IX. Participants noted that these are very much in line with those stipulated in the poverty reduction and economic growth strategies of ADF countries. Most are also in areas where the Fund has had long experience and where it has developed considerable expertise. Nonetheless, participants agreed that the Fund should enhance its cooperation and partnership with the Bretton Woods Institutions, the United Nations agencies, and bilateral development organizations engaged in work in the particular sectors/areas where the Fund is expected to intervene. Participants agreed that the operational priority areas for ADF-X would be the following.

6.2 *Agriculture and Rural Development.* Participants agreed that agricultural and rural development, including rural infrastructure, must necessarily continue to assume a high priority in Fund engagements under the ADF-X cycle, especially since a majority of the poor lives in rural areas. However, given the wide array of activities that could be considered under this sector, participants encouraged the Fund to delineate more precisely its areas of comparative advantage and focus.

6.3 *Education.* Participants agreed that the Fund would continue to give a high priority to education. They agreed that the focus of Fund interventions would be on policy reform, primary education, adult literacy and numeracy, and promotion of vocational and technical training. In addition the Fund should give particular support to promoting the attainment of universal primary education and the elimination of gender disparity in primary and secondary education.

6.4 *Health.* Participants agreed that the focus of the Fund under ADF-X would continue to be improving primary healthcare delivery, enhancing access to essential health services, including mother and child basic health services, nutrition, and basic health counseling, and supply of essential drugs and basic equipment. In close collaboration with other specialized agencies, the Fund would increase its support to ADF countries to implement effective programs to contain or prevent major communicable diseases.

6.5 Participants observed that a critical health *and* development issue is the relentless spread in many African countries of the HIV/AIDS pandemic, reversing, in some instances, the economic and social gains that had been achieved. Participants agreed that the Fund should intensify its support to programs and initiatives that aim to halt the spread of the pandemic by continuing to incorporate HIV/AIDS components in its varied projects and programs. Participants noted that the Fund would not be expected to assume a leadership role



in the fight against the pandemic, as there are other international and regional institutions more suited for this task.

6.6 *Rural Water Supply and Sanitation.* Participants welcomed the launch of the Fund's *Rural Water Supply and Sanitation Initiative (RWSSI)*, with the objective of assisting ADF countries to increase access for rural populations to potable water and safe sanitation.<sup>8</sup> The specific goal is to raise coverage from the current low levels to 80-85 percent by 2015, so as to reach the MDGs relating to water supply, sanitation, and health. Participants also welcomed the decision by the Boards of Directors to host the African Water Facility, which, by focusing on improving policies and institutions for water supply and sanitation, complements the RWSSI. They agreed that at the country level, the Fund's role should be defined within the framework of the priorities and strategies adopted by countries as reflected in their poverty reduction strategies; it should also be coordinated with other stakeholders.

6.7 *Private Sector Development.* Participants agreed that the Fund should place high priority on the development of the private sector in ADF countries, as this is critical for accelerating economic growth, increasing productivity and incomes, and reducing poverty. The Fund should use the Private Sector Country Profiles that it is developing as well as its Country Governance Profiles to draw-up specific action plans and to set clear results-based objectives. Fund activities should focus on measures to improve the investment climate by promoting macroeconomic policy reforms and more conducive legal and regulatory frameworks and should also include an expanded program to support the development of micro, small and medium sized enterprises (SMEs). In this endeavor, participants urged the Fund to exploit synergies with the private sector window of the Bank. To the greatest extent possible, the ADF should coordinate with other MDBs that are engaged in private sector development in Africa, including the assessment of individual countries and best practices for engaging the private sector and SME development. Given the important role that microfinance could play in the development of the private sector, participants also urged the Bank to present, at an early date, a comprehensive microfinance development strategy for Board approval, to guide future Fund operations in this sub-sector.

6.8 As elaborated in the new Private Sector Development Strategy before the Boards of Directors, participants agreed that the Fund should seek to tailor its support to the stage and development of private sector development, opportunities and prospects for expansion, the quality of the business environment, and the private sector's contribution to poverty reduction. Thus, in some countries, the Fund would be expected to support primarily policy, legal, regulatory, institutional and financial sector reforms and capacity building to further improve the business environment. In other countries, support would be given to demand-driven business development services and business networks. And in others, the Fund would provide technical assistance to ADF countries to strengthen their capacity to attract foreign investors, including the capacity to form public-private partnerships (PPP) in key sectors of the economy, especially infrastructure. In all its interventions, the Fund would be expected to give high priority to expanding its support to SMEs.

6.9 *Good Governance.* Participants agreed that the Fund is positioned to take a leadership role in promoting good governance in a number of ADF countries and that it should scale-up its engagements in this area. In particular, participants agreed that Fund operations should focus on fiscal management, accountability and transparency; capacity building for local

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<sup>8</sup> See Annex IV for synopsis of Bank Water Sector Activities and Initiatives.

administrations and decentralization where conditions permit; legal and regulatory reform, and judiciary and law enforcement capacity building; land tenure and property rights reforms; corporate governance; anti-corruption; and anti-money laundering. The Fund should mainstream governance concerns in both its public and private sector interventions wherever opportunities arise. Particular focus should be given to improving the investment climate for the development of the private sector, as ADF countries need to devote considerable effort to creating more attractive and secure environments for domestic and foreign investors. At the regional level, within the framework of NEPAD, the Fund should continue to provide support to the African Peer Review Mechanism (APRM) especially in the areas of economic stewardship, social development, financial sector and banking standards, corporate governance and operations monitoring and evaluation.

6.10 *Regional Economic Cooperation and Integration.* Participants agreed that the Fund should continue to play a leading role to promote regional cooperation and integration arrangements, particularly in the context of the NEPAD initiative. Fund operations should focus on regional institutional capacity building; the development of regional infrastructure; harmonization of macroeconomic policy; trade liberalization and creating the appropriate conditions for regional private sector development; and the promotion of sustainable development at the regional level. NEPAD has lent new impetus to regional cooperation and integration efforts and the Fund should therefore seize this opportunity to scale up its interventions. The special allocation of Fund resources for multinational projects serves as a catalyst to mobilize investment resources from other partners. Deputies agreed to maintain the scale of ADF resources earmarked for financing regional and multinational projects and programs at 10 to 15 percent of the total ADF-X resources.

6.11 *Gender Mainstreaming.* Participants acknowledged that the Fund has the potential to promote gender equity in ADF countries. In this regard, participants urged the Fund to implement effectively its *Gender Policy* and the recently launched *Gender Plan of Action*. In this context, participants called on the Fund to adopt a multi-pronged approach that would include: the application of gender analysis in the design of all Bank interventions in order to respond to the needs and priorities of women; fostering cooperative relations between women and men to enhance the impact of development interventions; and promoting women's economic empowerment as key to sustainable development not only for the economy but also for the education, health and social progress of their children. Towards this end the Fund should continue to mainstream gender issues in the Bank's interventions in all sectors. It should also continue to use its *Country Gender Profiles* to identify gender gaps, monitor progress towards meeting gender equality targets, and measure the effectiveness of Fund interventions. To enable it to undertake these activities, the Fund should increase its staff complement of gender specialists.

6.12 *Environment Mainstreaming.* Participants urged the Fund to continue to promote the sustainable management of scarce natural resources within the context of its new Environment Policy. Towards this end, participants urged the Fund to give special attention to promoting the sustainability of natural resource-based livelihoods of the rural poor by mainstreaming, where possible, the linkages between environmental management and poverty reduction in Fund supported interventions.

6.13 *Capacity Building.* Participants noted that capacity constraints in Fund countries continue to hold back the effective implementation of Fund programs and projects. The Fund has, in the past, supported projects for institutional development in the context of its reform

programs, as well as in the training provided through the African Development Institute (ADI) and the Joint Africa Institute (JAI), and by supporting regional institutions such as the African Capacity Building Foundation (ACBF). Participants urged the Fund to intensify such capacity building efforts and, as importantly, to adopt a more strategic approach by incorporating capacity building concerns and issues in CSPs.

6.14 *Post-Conflict Assistance and Arrears Clearance.* Participants noted that the Bank Group had approved policy guidelines for its assistance to post-conflict countries and that, as noted above, it had established a Post-Conflict Country Facility to help clear the arrears of these countries. As indicated in the Bank's policy documents, participants stressed the need for the Bank Group's to undertake arrears clearance operations and provide assistance to post-conflict RMCs in the framework of internationally agreed programs and in close collaboration with the Bretton Woods institutions. The Fund's assistance to post-conflict countries should not exceed three years and should focus on socio-economic reintegration programs, the rehabilitation of basic social and economic infrastructure, and the promotion of good governance.

## **VII. Country Eligibility, Resource Allocation System and ADF Financing Terms**

### ***Country Eligibility***

7.1 Participants agreed that the poorest countries should continue to be the major beneficiaries of ADF resources, while underscoring country creditworthiness, performance, and per capita GNP as the fundamental criteria of eligibility to receive Fund resources. Country creditworthiness will continue to be based on criteria being used by the World Bank until such time as the Fund develops its own policy assessment. Accordingly, participants directed that assessments of country creditworthiness should be used to group regional member countries as follows (see Annex V):

- Category A (Fund-only): Countries deemed not creditworthy for non-concessional financing by the World Bank (i.e., IDA-only countries);
- Category B (Blend): Countries deemed creditworthy for blend financing by the World Bank; and,
- Category C (Bank-only): Countries deemed creditworthy for non-concessional financing by the World Bank.

7.2 Participants agreed that Category A countries will borrow only from the Fund and will, therefore, not be eligible to borrow non-concessional resources from the Bank. Countries in Category B will be blend countries and eligible to borrow concessional and non-concessional resources. Category C countries will not benefit from ADF-X resources. Participants took note of two exceptions to this country categorisation for Category A countries: (a) access to the private sector window of the Bank, and (b) access to non-concessional resources for enclave projects, provided these meet the conditions set out under the Bank's agreed policy and do not contravene any of the conditionalities that form part of a programme funded by BWIs.

### ***The Performance-Based Resource Allocation System***

7.3 Participants stressed that concessional resources must be used effectively to make a lasting impact on poverty in Africa, in conformity with the priorities highlighted in this and other Reports of Deputies. Participants underscored the importance of giving priority in the allocation of resources to poor countries that have demonstrated their commitment to poverty reduction, sound policies, good governance, the rule of law and robust institutions, the strength of which is the key determinant of the effectiveness of external assistance.

7.4 Participants agreed that the allocation of Fund resources, consisting of loans and grants, would continue to be based on the Country Performance Assessment (CPA), consisting of the Country Policy and Institutional Assessment (CPIA), and the Country Portfolio Rating (CPR) and reflected in the Performance Based Allocation System. The CPIA will account for 70 percent of the rating, and the CPR for 30 percent. Participants agreed that the CPIA process would include a stronger involvement of the country authorities as part of a continuous policy dialogue between the country and the Fund. This will help to identify areas where country performance is perceived as weak.

7.5 In addition, participants emphasized that CPA criteria for countries should be clearly linked to implementation of reforms rather than the commitment to reform embodied in country-owned poverty reduction strategies. Participants also called on the Fund to work in close collaboration with IDA and other sister regional development banks in refining the CPA system.

7.6 Participants stressed the importance of transparency and disclosure of the outcomes of the CPA exercise as a means to exert peer pressure among borrowing member countries to enhance performance and promote good governance. This would support the Bank Group's efforts to encourage intellectual exchange and knowledge sharing among regional member countries on governance matters. They welcomed the Bank's agreement to make the CPA's individual country performance ratings and components fully transparent, in alignment with IDA's practice that is expected to come into effect in 2005.

7.7 With respect to the Performance Based Allocation (PBA), participants requested the Fund to review the relative weight of poverty and governance in the PBA system and submit any proposed changes to the Board of Directors for its approval. These should take into account the recent changes introduced by IDA in its PBA system.

### ***Debt Sustainability and Terms of ADF Financing***

7.8 [Participants noted that as a result of excessive debt build-up by a large number of low-income countries, the donor community has been obliged to provide debt relief under the HIPC initiative as well as bilaterally. The HIPC initiative aims to reduce the stock of debt to sustainable levels, thus enabling these countries to allocate more of their scarce resources to promote poverty reduction and economic growth.

7.9 Participants agreed that in order to avoid the build-up of excessive debt in the future the terms of ADF-X financing would be based on an analysis of each country's prospect for debt sustainability. This would rely on the agreed IMF/World Bank debt sustainability framework as applied to the Fund. Accordingly, countries deemed likely to face debt distress by contracting additional concessional loans would only be eligible for grant financing.

Countries, by contrast, which are deemed in a position to sustain higher levels of concessional debt with very low probability of debt distress would be eligible for loans or a combination of loans and grants. The allocation of grants would, however, be adjusted to correct for the weakening of the PBA systems as increasingly softer terms for poorly performing countries imply a higher transfer of resources in present value terms.

7.10 Based on the analysis carried out by the Fund, and using the IMF/World Bank Debt Sustainability Framework, the proportion of loans and grants for each ADF country will be as indicated in Annex VI. Participants agreed, however, that the Fund, in close collaboration with the IMF and the World Bank, would monitor closely the debt sustainability of each country and the Fund would make the necessary adjustments to a country's financing terms as required, subject to the approval of the Fund's Board of Directors. The Fund would report the results of this exercise to Deputies at the mid-term review of ADF-X.]

### ***Financing of Grants***

7.11 [Deputies agreed to compensate the loss of reflows to the Fund as a result of higher levels of grants by ... ]

### ***Allocation of Fund Resources by End Use***

7.12 Participants agreed that of the total amount of available ADF-X resources (including internally generated resources, transfer from ADB net income and other additional resources), allocations should be made as follows:

- One (1) per cent as a contingency to cover the Fund's exchange rate risks.
- UA [...] million to the Post-Conflict Countries Facility for arrears clearance

Of the remaining balance of resources, allocations will be made on the following basis:

- 85-90 per cent for specific project investments and technical assistance operations, including policy-based loans and grants, and support to sector-wide programs. The vast majority of these resources will be allocated to Category A countries, with up to 5 percent to Category B Countries; and
- 10-15 percent for multinational projects.

7.13 Participants agreed that, the Board of Directors could authorize grants to African research institutions involved in research work related to the priority areas of the Fund's operations. Unless such institutions are national in character, such funds would be drawn from the allocation for multinational projects.

## **VIII. Analytical Tools and Financial Instruments**

8.1 Participants agreed that the Fund's financial instruments and analytical tools would be used in a manner that both responds to the emerging development needs of borrowing countries. In particular, in the light of the emerging differentiation among Fund countries, participants stressed that the Fund should adapt its strategies, financial instruments, and

analytical tools to the changing dynamics among Fund countries. They agreed to the use of the following financial instruments and analytical tools under ADF-X.

## 8.2 *Analytical Tools*

- The Fund should continue to use the full range of strategy papers at its disposal – *CSPs*, *Regional Strategy Papers (RSPs)*, *Regional Institutional Strategy Papers (RISPs)*, *Monitoring Briefs*, *CDPs (Country Dialogue Papers)* and *Interim Country Strategy Papers (ICSPs)* – in which to set out its medium-term assistance strategy to countries, regions and institutions and provide the justification for the allocation of scarce ADF resources. Where possible, the Fund’s strategy papers should be informed by country-owned poverty reduction strategies (PRs) and regional strategies as the starting point for defining its interventions, and national/regional development plans. The Fund should incorporate the analysis, results and recommendations of such strategies, and, where appropriate, its own technical analysis and fiduciary assessments as well as those of other development partners, into the design of its own strategy papers. Participants asked the Fund to present to the Board proposed project and policy-based loans and grants in a consolidated manner in CSPs.

## 8.3 *Financial Instruments*

- *Project Loans and Grants*: These comprise project loans and grants including multinational projects, sector investments, and lines of credit. Participants noted that project investments could continue to be the primary vehicle for Fund support to countries during ADF-X.
- *Policy-Based Operations*. These consist of loans and grants in support of structural adjustment and sector adjustment operations, including legal, regulatory and institutional reforms. Participants agreed that the Fund should continue to use policy-based operations to create a conducive macroeconomic and sector policy environment. They emphasized that policy-based operations should be used in a selective manner and focused on countries which are good performers under the Fund’s CPA, with CSPs providing the justification for all PBL allocations. Participants agreed that the Fund would take responsibility for the design of policy-based operations in governance and regional integration, in countries where the macroeconomic situation is judged acceptable by the IMF and where sufficiently transparent financial and budgetary procedures exist. Participants also agreed that, in line with its guidelines, the Fund [could] consider providing budgetary support to countries that have, *inter alia*, a well-designed PRSP or National Development Plan, a viable macroeconomic and financial framework, a strong and genuine partnership with the donor community and other stakeholders, strong implementation and monitoring mechanisms, and effective, transparent, and adequate fiduciary and budgetary systems. [Participants agreed that no more than ... percent of a country’s allocations would be extended via policy-based operations.]

## **IX. Membership of the Fund**

9.1 Participants urged Management to continue discussions with countries that had previously expressed an interest in joining the Bank Group as well as others, to enlarge membership in the Fund.

9.2 Participants took note of the Status Report on the review of the governance structure of the Fund. They recalled that the present arrangements approved by the Board of Governors were only an interim solution and that a permanent solution to the issues of voting rights and participation of beneficiary countries in the ADF replenishment process would need to be found. They called on the Fund and State Participants to continue their efforts to find a permanent solution. Progress on the matter will be reviewed at the ADF-X mid-term review.

## **X. Management of ADF Resources**

10.1 Participants noted that a number of financial reforms have been undertaken recently by the Fund to optimise the volume of net development resources (NDR) available to fund its development interventions. Participants asked the Fund to remain vigilant in pursuing and implementing policies that maximise the availability of NDR. Participants also requested Management to search for ways to further enhance the contribution of investment income to the Fund's total income, and to limit the Fund's exposure to exchange risks.

10.2 Deputies noted the standard encashment schedule for ADF X covering the period 200- to 201-, presented in Annex II. [They also agreed that currency specific discount rates shall be used to calculate the credits/discounts to which State participants that opt for accelerated encashment would be entitled.]

## **XI. Target Replenishment Level and Other Resources for the ADF-X Period**

11.1 At the conclusion of the consultations, Deputies agreed on a target Replenishment level of UA ... billion for the period 2005-07, including internally generated resources of UA 532 million during the ADF-X period. The detailed provisions recording the agreement of Deputies and the terms of the Replenishment are set out in Annex I and in the Draft resolution to be submitted to the Board of Governors.

11.2 Deputies would welcome additional contributions from Participants and Members having the economic capacity to do so in order to further enhance the operations of the Fund during the ADF-X period.

11.3 Deputies noted that delays in making payments could jeopardize the commitment capacity of the Fund and urged all state participants to make their payments on time. They requested Management to report regularly to the Fund's Board on the status of each donor's commitment, actual contribution, and ensuing voting power in ADF. They requested that such information be included in the ADF Annual Report and other publications as applicable.

## **XII. Mid-Term Review**

12.1 Participants agreed that there would be a review of Fund operations, adopting the same format as the replenishment consultations, during the second year of ADF-X operations. While the timing of this review will depend on when ADF-X becomes effective, it will not be later than 18 months after the effectiveness of the replenishment, and before release of the last tranche.

12.2 The review should discuss the progress made in implementing the decisions set out in this Report, and in particular the progress made in implementing:

- the time-bound measures and actions included in the Action Plan to improve the implementation of ADF Operations and to implement the recommendations of the independent evaluation report; and
- the operational priorities set out in this Report.

The progress made shall be considered against the ADF-X Program Implementation Matrix to be developed and presented to the Fund's Board after the conclusion of the Consultations.

## **XIII. Selection of the Coordinator for the ADF-XI Consultations**

13.1 Deputies agreed that they would decide on a chairperson for the ADF-XI Replenishment negotiations by the time of the ADF-X mid-term review.

## **XIV. Approval**

14.1 Deputies of State Participants and Representatives of Borrowing Countries approved the contents of this report at Copenhagen, Denmark on ... December 2004.



**SUBSCRIPTION AND OTHER RESOURCES FOR THE ADF-X PERIOD**

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

- (i) The Replenishment will come into effect when the Fund has received the Instruments of Subscription representing an aggregate amount equivalent to at least 30 per cent of the Subscriptions. It is expected that this level of subscription will be attained by 31 March 2005 or such later date as determined by the Board of Directors (the “Effective Date”);
- (ii) In order to enable the Fund to meet Operational Commitments before the entry into effect of the Tenth Replenishment, the Fund is authorized, when the level of subscriptions received aggregates 20 per cent of total pledges, to use for Operational commitment an amount equivalent to the first commitment tranche of each Instrument of Subscription received before the Effective Date, unless the subscribing State Participant specifies otherwise when depositing its Instrument of Subscription. This Advance Subscription Scheme will be implemented without prejudice to the Advance Facility Scheme under which any State Participant may authorize the use of any portion of its subscription for commitment purposes before the entry into effect of the Tenth Replenishment;
- (iii) Subscriptions may, in exceptional cases, be qualified and State Participants intending to do so will notify the Fund to that effect. Such qualified subscriptions shall be subject to the conditions specified in the Resolution;
- (iv) Subscription pledges listed in the Annex to the Resolution on the Tenth Replenishment have been determined in Units of Account (UA) and have been converted into Units of Obligation of the individual participants on the basis of daily exchange rates, averaged monthly, expressed in terms of Currency Units per SDR as given by the IMF for the six-month period commencing 1 April 2004 and ending on and including 30 September 2004. Subscriptions shall be denominated in SDR of the IMF, a currency used for the valuation of the SDR or the currency of the individual State Participant, except that if the economy of a State Participant experienced a rate of inflation in excess of 10 per cent per annum in the period 1 January 2001 - 31 December 2003, as determined by the Fund, the State Participant’s Subscription will be denominated in SDRs or, at the option of the State Participant, in a currency used for the valuation of the SDR;
- (v) Subscriptions will, to the extent of payment, carry voting power in the manner specified in the Resolution on the Tenth Replenishment. However, if the Tenth Replenishment has not entered into effect by 31 March 2005, advance subscriptions will carry voting power to the extent of payment;
- (vi) Terms of payment have been determined such that the Fund will have the resources it needs to operate satisfactorily and to reflect the multilateral character of the Tenth Replenishment. Payment in respect of each subscription will be made in three

installments, of which the first installment will be made on or before 30 April 2005 or 30 days after the Effective Date, whichever is earlier, with the second and third installments falling due respectively on or before 30 April 2006 and 30 April 2007;

- (vii) As an exceptional case when a State Participant cannot, due to its legislative procedures, make payment in respect of the first installment by the stated date, payment in respect of that installment should be made within 30 days of the deposit of its Instrument of Subscription. Subsequent payments in respect of qualified subscriptions shall be made within 30 days as and to the extent that the relevant installment becomes unqualified and subject to the annual payment dates specified for unqualified subscriptions. A State Participant who has deposited a Qualified Instrument of Subscription shall inform the Fund of the status of its subscription (i.e., whether legislative approval has been received or not) not later than 30 days after the annual payment dates specified for unqualified subscriptions;
- (viii) At the time of depositing its Instrument of Subscription, each State Participant shall indicate to the Fund its proposed program of installment payments.
- (ix) Encashment of notes shall be in accordance with the replenishment specific (fixed schedule) encashment system, adopted by the Board of Directors in March 2000. The encashment schedule shall cover a period of 10 years from 2005 to 2014. A standard encashment schedule shall be prepared for each State Participant in his currency of obligation, using the profile indicated in Annex II. Should a State Participant wish to adopt an encashment schedule other than the standard, the Fund shall agree with the State Participant on a revised encashment schedule for its unqualified subscription that yields at least an equivalent value to the Fund in present value terms;
- (x) The size of each commitment tranche will be equal to one-third of the amount of total subscriptions;
- (xi) The rules governing the commitment of each of the three tranches have been formulated in such a way that the first tranche will be committed from the Effective Date (or before that date, if it is an Advance Subscription); the second tranche from 31 March 2006, or the Effective Date, whichever is later; and the third tranche from 31 March 2007 or the Effective Date whichever is later; and
- (xii) Tranches will be automatically available for Operational Commitment unless a State Participant within 30 days of receiving information from the Fund, notifies the Fund that commitment of its second, or as the case may be, its third tranche, should be reduced to the extent to which any qualified subscription of a defined size has not been made available for commitment. The right of the State Participant shall be deemed waived if the Fund does not receive notice within the thirty-day period.

**Standard Encashment Schedule**

<b>Tenth General Replenishment of the Resources of the African Development Fund</b>	
<b>(Standard Encashment Schedule)</b>	
<b>Year</b>	<b>Encashment Percentage</b>
<b>2005</b>	3.43
<b>2006</b>	7.76
<b>2007</b>	12.58
<b>2008</b>	14.77
<b>2009</b>	14.87
<b>2010</b>	13.70
<b>2011</b>	11.74
<b>2012</b>	9.74
<b>2013</b>	8.40
<b>2014</b>	3.01
<b>Total</b>	<b>100.00</b>

**List of Documents Prepared for the ADF-X Consultations**

**First Meeting (Geneva Switzerland, 16-17 February 2004)**

1. A Proposal for the Strategic Orientation of ADF Activities under ADF-X
2. Exchange Rates to be Used in ADF-X Replenishment

**Second Meeting (Kampala, Uganda, 27-28 May 2004)**

1. Action Plan to Improve the Implementation of ADF Operations
2. The Study of the Decentralization of Activities of the African Development Bank – A Status Report
3. Rural Water Supply and Sanitation Initiative – A note on the Concept and Implementation
4. Discussion Paper on a Framework for Clearing the Arrears of Post-Conflict HIPCS
5. Offsetting Foregone Reflows due to Increased Grant Financing in ADF IX – Additional Options
6. Meeting the Millennium Development Goals and Emerging Development Initiative in Africa – Discussion Paper on a Notional Level of Replenishment of Resources for the African Development Fund
7. A Note on Internally Generated Resources to Finance the Tenth General Replenishment of Resources for the African Development Fund
8. An Annotated Outline for the Report of the ADF Deputies on the Consultative Meetings on the Tenth General Replenishment of Resources for the African Development Fund

**Third Meeting (Tunis, 16-17 September 2004)**

1. Independent Evaluation of ADF VII, VIII & IX – Stepping Up to the Future
2. Revised Action Plan to improve the Implementation of ADF Operations
3. The Emerging Debt Sustainability Framework and its Possible Implications for ADF-X Financing Terms
4. Replenishment Scenarios for ADF X Draft Deputies Report

**Fourth Meeting (Copenhagen, 16-17 December 2004)**

1. Revised Deputies Report
2. Update on the Debt Sustainability Framework (with addendum)
3. The ADF-X Financing Framework (with addendum)

**SYNOPSIS OF BANK WATER SECTOR  
ACTIVITIES AND INITIATIVES**

**September 2004**

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## **Overview of Water Initiatives and Activities**

Africa has fairly abundant water resources with annual renewable water resources estimated at about 5,400 billion m<sup>3</sup> per year. The water resources are characterised by extreme temporal and spatial variability with over 60 shared water basins dominating the landscape. The level of water resources exploitation is low with only about 3 percent of the total amount used under managed condition. The greatest challenge for Africa is therefore to achieve significant development of its water resources to ensure sustained economic growth and social well-being.

The Bank Group has made substantial contributions to the development of the water sector in Africa by investing about USD 5.06 billion over the past 37 years. The key lesson learned for this long period of involvement is the need for a comprehensive and integrated approach geared to unlock the full use of water for poverty reduction and economic development. This fundamental realisation has prompted the Bank to the re-examination of its water resources management approaches culminating in the adoption of the Integrated Water Resources Management (IWRM) Policy in 2000.

The IWRM Policy is based on the recognition that water has an environmental, social and economic use and that its management should be optimised under this interlinked needs. Guided by its IWRM Policy, and in response to the global and regional drive to address Africa's impending water crisis, the Bank has embarked on the development and promotion of several regional water initiatives.

The Bank played a key role in the formulation of the African Water Vision and Framework for Action, which was presented at the 2<sup>nd</sup> World Water Forum in 2000. The Vision, which is designed to address the challenges of providing water for various uses, is an outcome of wide consultation among stakeholders in Africa. The Vision provided the strategic framework for developing the three main Bank initiative i.e.: the NEPAD Water and Sanitation Programme, the Rural Water Supply and Sanitation Initiative (RWSSI) and the African Water Facility (AWF) as briefly discussed in the following sections.

The Bank has also established a Water Partnership Programme with the assistance from the Netherlands Government to strengthen its capacity to promote integrated water management principles and practices in the RMCs and support the implementation of the IWRM Policy in Africa.

Table 1 below provides the salient features of main Bank water initiative and their inter linkages under the IWRM Policy framework. Synopses of the three main initiatives are provided in the following sections.

**Table1 : Summary of Main Bank Supported Water Initiatives**

<b>Initiative</b>	<b>Main Objectives</b>	<b>Activity Focus</b>	<b>Linkage</b>
<b>Policy and Strategic Framework</b>			
Integrated Water Resources Management Policy	Provide principles and Policy framework for water and sanitation operations	Optimization of water resources management for economic social, and environmental use	Overarching policy framework for Bank water activities and anchor for the implementation of the RWSSI and activities under Water Partnership Programme and AWF.
African Water Vision and Framework for Action	Provide regional strategic framework for guiding water resources development in Africa, including target milestones to be achieved over the coming 20 years.	Meeting basic needs and sustainable water security by 2025	Overarching strategic planning framework for achieving a water secure Africa and anchor for the implementation of the RWSSI and activities under Water Partnership Programme and AWF.
Water Partnership Programme	Support for capacity building and facilitation of Bank water operation.	Internal Bank capacity building and development of IRMW approaches in RMCs.	Support implementation of the IWRM Policy in Africa. Support work on the AWF and framework the implementation of the RWSSI and IWMI under NEPAD Water and Sanitation Programme.

<b>Water Initiatives</b>			
Rural Water Supply and Sanitation Initiative	Contribute to poverty reduction by providing rural communities in Africa improved and sustained access to water supply and sanitation.	Primary emphasis on the provision of appropriate water and sanitation infrastructure and advocacy. Secondary area is reform of RWSS sector and capacity building.	Complements AWF facilitation activities in policy formulation, institutional reform, capacity building, promotion of stakeholder participation, particularly, in countries with poor policies and weak institutions.
African Water Facility	Reduce poverty and promote sustainable development in Africa by expanding the capacity of Africa to access existing and future financing sources for water and by improving the efficiency in the use of such resources.	Primary emphasis is to create/strengthen policy and institutional environment for water. Secondary area is limited, small-scale capital investment programmes/Innovative pilot operations.	Support for capacity building and piloting of innovative investments. Hence upstream support for RWSSI and NEPAD investment.
NEPAD Water and Sanitation Programme	Mobilizing political will and actions to implement policy and institutional reforms; overarching strategy for trans-boundary water resources management.	Supporting trans-boundary waters in order to promote regional integration.	Complements other initiatives including RWSSI, by addressing regional investment requirements.



## **Rural Water Supply and Sanitation Initiative (RWSSI)**

### ***Goal and Objectives***

The RWSSI was conceived as the Bank response to meet the MDG and the African Water Vision targets by addressing the problem of low access to water supply and sanitation in rural Africa. The Initiative falls under the wider NEPAD framework of developing water resources to meet basic water, food and energy needs. The overall goal of the RWSSI is to contribute to poverty reduction by providing safe water and basic sanitation to 80 percent of the rural populations in Africa. Its aims to accelerate access to improved and sustainable water supply and sanitation (WSS) services through increased investment and use of innovative approaches in programme implementation, management and operations. The RWSSI targets are set to achieve 50 percent access by 2007; 66 percent access by 2010 and 80 percent access by the year 2015. The cumulative access at the end of the target periods is given in Table 2.

**Table 2 : Cumulative Water Supply and Sanitation Access  
(million of people)**

Description	Base Case	RWSSI Access Target		
		50% access	66% access	80% access
Target year	2000	2007	2010	2015
Total Population	792	912	996	1109
Rural Population	487	569	593	633
Access to Water supply	231	314	400	508
Access to Sanitation	220	325	405	515

Sources : Base Case : WHO-UNICEF Global Water Supply and Sanitation Assessment 2000 Report. RWSSI Access Target are ADB estimates.

### ***Resources Requirement and Mobilisation***

The cumulative investment for achieving 80% coverage by 2015 is estimated to be about USD 14.2 billion. Of this about USD 9.7 billion will be for providing water supply infrastructure and associated investments, USD 4.4 billion is for provision of sanitation and about USD 95.5 million for programme preparation and other facilitation tasks. The proposed funding arrangement indicates that 80 % of the investment will be mobilised from international sources. It is envisaged that 30 % of the overall requirement will be obtained through ADF replenishment and 50% from other bilateral and multilateral donors. The rest (20%) will be financed from government resources (15 %) and community involvement (5 %).

International Donor Conferences will be organised at the beginning of the implementation of the short, medium and long-term action plans, to bring the donor community and African partners together and to attain commitments and pledges to support the implementation of RWSSI. The options for committing resources at the country level include direct investment, joint financing with the Bank and other partners or through a RWSSI Trust Fund established for this purpose. The first International Donors Conference under the patronage of one of the major donor country is planned for early next year after the ADF X replenishment.

The specific objective of the first Donors Conference will be to obtain pledges for US\$ 2.28 billion to complement the US\$ 360 million per annum replenishment sought from ADF-X for

implementing the Short Term Action Plan. A high level Bank mission lead by the President has already met the French Government officials as the first step of the resources mobilisation effort. The Bank plans to launch mission to major donor countries (Tokyo, Washington, Berlin, London, Rome, Brussels,) and to the World Bank and European Commission to seek support and prepare the ground work for the International Conference. Table 3 below summarises the resources requirement to meet the intermediate and final RWSSI coverage targets.

**Table 3 : Cumulative Coverage and Investment Requirement  
(2005 –2015)**

Implementation Period	Coverage (million of People)		Financial Requirement (USD billion)			
			Facilitation	Investment		
	Water	Sanitation		Water	Sanitation	Total
2005-2007	82.5	104.8	0.0955	2.9	1.6	4.6
2008-2010	86.9	80.6	0.0000	3.0	1.2	4.3
2011-2015	107.3	109.5	0.0000	3.8	1.6	5.4
Total	276.7	294.9	0.0955	9.7	4.4	14.2

### ***Implementation Modalities and Approaches***

The nature of the intervention under RWSSI would be tailored to meet the specific needs of the RMCs. The activities involve the provision of water and sanitation infrastructure as well as the raising of awareness and bringing about behavioural changes at the household level. A wide range of appropriate technologies suitable for the specific location and community needs will be applied. The RWSSI would promote the programme approach where a country prepares a comprehensive sector investment programme to meet its long-term development goals and targets.

The programme approach allows for long-term commitment between the RMCs and the development partners and facilitates the achievement of longer-term goals such as envisaged under the RWSSI. Programmes would be implemented using demand-responsive decentralised management approach at community level. Flexible and simple procurement and disbursement procedures based on existing Bank rules will be applied to fast track and facilitate rapid programme implementation. Programme implementation has commenced in five pilot countries where the above approaches are considered in programme formulation and appraisal.

### **African Water Facility**

#### ***Goals and Objectives***

The African Water Facility Initiative is led by the African Minister's Council on Water (AMCOW) and is a major outcome of the effort of implementing the African Water Vision and Framework for Action. The overriding goal of the AWF is to contribute to the efforts to reduce poverty and promote sustainable development in Africa. In accordance with the goals, the Facility's objectives are to improve the enabling environment and strengthen water resources management so as to attract the massive investments necessary to achieve the regional objectives. The operational areas of the Facility include support for (i) integrated water resources management planning; (ii) policy and institutional reform; (iii) capacity building; (iv) environmental management; (v) program and project preparation, and

monitoring and evaluation. In this regard the Facility would provide resources for the facilitation activities envisaged in RWSSI thus complementing its implementation.

A secondary objective of the AWF is to support implementation of suitably selective capital investment programmes limited in scope and designed to cover primarily innovative pilot projects to develop local water technology and relatively small scale projects reinforcing efforts of communities, NGOs, water user associations and other actors.

### ***Resource Requirement and Mobilisation***

The immediate objective of the Facility is to raise about USD 615.7 million, of which USD 2.5 million are expected to be spent on organization and administration; USD 170 million on facilitation activities, and USD 434 million on capital investments. An indicative medium-term action programme for the period 2004 to 2009 has been developed to guide this effort. AMCOW supported by the Bank would lead the resource mobilisation effort. To this effect commitment from some donors has been already secured. The proposed RWSSI International donor conferences would provide additional forums for sensitising the needs of the Facility.

### ***Implementation Modalities***

The Facility has been established as a Special Water Fund managed by the Bank. The two main decision making organs of the Facility are the Board of Directors of the Bank and the Governing Council of the Facility. The Board of Directors of the Bank has responsibility for the general operation of Facility and will approve projects and programmes financed from it, its annual budget and financial statements. A Governing Council consisting of 13 members representing AMCOW (5 members), the Bank (1 member), donors (5 members), NEPAD (1 member) and UN WATER Africa (1 member) will be established to provide the general policy direction and approve the operational focus of the Facility on annual basis. At operational level, Bank staff will assist and undertake project preparation and implementation activities. Currently the Bank is preparing the operational documents including the operations manual, staffing plan, rules and regulation and model agreements for contributing donors. Procurement and disbursement will be conducted by applying fast track procedures in accordance with the Rules of the Bank.

## **NEPAD Water and Sanitation Programme**

### ***Goals and Objectives***

The Bank has been designated as the lead institution to assist NEPAD implement its infrastructure development programme with a view to enhancing regional integration. Water and sanitation is one of the five areas of infrastructure development under this programme. NEPAD would play an important role in regional advocacy; mobilization of political will and actions; facilitation of resource availability; fostering partnerships for infrastructure development and financing. It will provide a strategic framework for coordinating and monitoring regional infrastructure programmes; and facilitating knowledge sharing, networking and dissemination of best practices among countries, RECs and technical agencies.

A Short Term Action Plan (STAP) for implementing priority activities over the coming five years has been prepared. The STAP programmes included the development of national integrated water resources management (IWRM) policies; mitigation of floods and droughts; meeting basic needs and, management of transboundary water resources. The implementation

of STAP, with respect to trans-boundary water resources has focused on seven river basins i.e. Niger and Senegal in West Africa; Congo and Lake Chad in Central Africa; Nile in East Africa; and Zambezi and Okavango Southern Africa. The Bank is also assisting NEPAD in the formulation of the Medium to Long Term Strategic Framework (MLTSF) for Water and Sanitation Infrastructure Programme. The MLTSF focuses on three main themes: management and development of African water resources to ensure water security; expansion and improvement of water and sanitation services; and enhancing finance for resources development.

### ***Resources Requirement and Mobilisation***

The resource requirement for the implementation of the short-term action plan amounts to about USD 135 million over a period of five years. The NEPAD programmes would be supported and financed from multinational, bilateral, national and private sector sources as part of the overall development effort in Africa. The NEPAD framework would facilitate increased investment in the continent. The Bank has no significant role in resource mobilization for the Programme, as this is a major responsibility of the NEPAD Secretariat. Currently the Bank is managing an Infrastructure Project Preparation Facility that has been established within the Bank with initial support of Can \$ 10 million from Canada to support preparation of bankable projects.

### **Linkages Between the Water Initiatives**

The Integrated Water Resources Management Policy of the Bank provides the overarching framework for all Bank water initiatives and activities whereas the targets of the MDG and the Africa Water Vision guide the developmental aspects. In this context the NEPAD Programmes are designed to operationalise the overall goals of the Vision in the short to long term time frame. The RWSSI responds to the specific target of meeting basic water needs where as the AWF is designed to contribute to strengthen the resources base.

There is a strong link between the RWSSI and AWF as the AWF would finance the RWSSI facilitation activities related to programme preparation, policy formulation, institutional reform, capacity building, promotion of stakeholder participation and ensuring that gender and environmental concerns are properly integrated into the programmes. In addition, there is scope for the Facility to support, where appropriate, investment in RWSSI infrastructure development particularly for piloting innovative approaches and technologies.

The NEPAD Water Programme focuses on promoting regional integration and cooperation and in this context emphasis are placed on transboundary water resources management. The AWF would complement the NEPAD Water Programme by providing resources for facilitation of trans-boundary water programme to ensure the effectiveness and sustainability of the programme.

### **Coordination**

The Bank will take a lead role in the implementation of RWSSI in terms of coordinating the efforts of donors and other partners around a common programme, ensuring a synchronized response in meeting the challenges and facilitating a harmonised approach to programme implementation. The Bank will establish a Water Coordinating Committee to provide the secretariat functions for the implementation of the various initiatives. The Committee will oversee water activities within the Bank and serve as a secretariat for coordinating donor responses including implementation monitoring and progress reporting. In this respect the

Bank will be strengthening its staff in term of quality, skill mix and number and aligning its internal business process to meet the challenges of the wider water resources management responsibilities.

Coordination at national level would be primarily achieved through the PRSPs. The mechanisms for developing the PRSPs involve discussion of the national programmes of the various institutions, governments, donors, MDBs and NGOs and how they can fit within the overall country integrated water resources management plan. Coordination of Bank operations would be ensured through the County Strategy Papers and Regional Assistance Strategy Papers where Bank commitments to national and regional programmes are determined.

At the regional level, NEPAD provides the overarching framework for directing the regional water resources development efforts to achieve the strategic goal of ensuring continental water security. The establishment of AMCOW and its involvement in the AWF has created a good opportunity to ensure that all the programmes to be supported by RWSSI, the NEPAD Water Programme and AWF fit into the national and regional programs of the RMCs, along with the support programs of the donor community. In addition, UN Water Africa (which represents UN agencies active in the water sector in Africa) will have a significant co-ordinating role between the among UN agencies and with other stakeholders.

### **Conclusion and Way Forward**

The Bank will mobilize resources directly from the donor community and monitor implementation of water activities in collaboration with various multilateral, bilateral and local institutions in accordance with specified short, medium and long-term action plans. The Water Coordinating Committee will devise resource mobilisation approaches that integrate the complementary requirements of all the initiatives. The proposed International Donors Conference will be a step in this direction

In the coming months, the main activities that need to be implemented include: (i) the organisation of a conference to mobilize resources to implement the RWSSI and AWF initiatives; (ii) the preparation of country programmes for the first category of RWSSI countries; (iii) the preparation of agreements and implementation modalities for partnership programmes with donors; (iv) following up on pledges made for support and building a pipeline of projects and programmes.

The Bank is supported in this endeavour by many partner institutions and stakeholders who share the consensus that water is an important instrument for poverty reduction and socio-economic development. As the premier regional development institution, the Bank Group is rightfully playing the lead catalytic role in galvanising the requisite resources in support of implementing the water initiatives and programmes through collective action by donors, RMCs and other stakeholders.

## **CLASSIFICATION OF REGIONAL MEMBER COUNTRIES**

### **A. Countries Eligible for ADF Resources Only\***

Angola  
Benin  
Burkina Faso  
Burundi  
Cameroon  
Cape Verde  
Central African Republic  
Chad  
Comoros  
Congo  
Congo, Democratic Republic  
Côte d'Ivoire  
Djibouti  
Eritrea  
Ethiopia  
Gambia  
Ghana  
Guinea  
Guinea-Bissau  
Kenya  
Lesotho  
Liberia  
Madagascar  
Malawi  
Mali  
Mauritania  
Mozambique  
Niger  
Rwanda  
Sao Tomé and Príncipe  
Senegal  
Sierra Leone  
Somalia  
Sudan  
Tanzania  
Togo  
Uganda  
Zambia

### **B. Countries Eligible for a Blend of ADB and ADF Resources**

Nigeria  
Zimbabwe

### **C. Countries Eligible for ADB Resources Only**

Algeria  
Botswana  
Egypt  
Equatorial Guinea  
Gabon  
Libya \*\*  
Mauritius  
Morocco  
Namibia  
Seychelles  
South Africa  
Swaziland  
Tunisia

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\* Except for limited ADB lending for enclave and private sector projects

\*\* Libya is not a Borrowing Member Country

**ADF Financing Terms for Individual Countries**

### 3.3

#### Action Plan to Improve the Implementation of ADF Operations



ADF-X/CM.4/2004/03/Annexes

**ACTION PLAN TO IMPROVE  
THE IMPLEMENTATION OF ADF OPERATIONS**

**DECEMBER, 2004**

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## ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
ADF VII - IX	African Development Fund's Seventh, Eighth and Ninth replenishments
ADF X	African Development Fund's Tenth replenishment
APPR	Annual Portfolio Performance Review (Report)
AUDT	Audit Department
CFAA	Country Financial Accountability Assessment
CHRM	Human Resources Department
CPAR	Country Procurement Assessment Review
CIMM	Information Management and Methods Department
CMVP	Corporate Vice-Presidency
CPIP	Country Portfolio Improvement Plan
CSP	Country Strategy Paper
ESW	Economic and Sector Work
FFCO	Financial Control Department
FNVP	Finance Vice-Presidency
GCEL	General Counsel and Legal Department
JAI	Joint Africa Institute
Logframe	Logical Framework
MDGs	Millennium Development Goals
MTR	Mid-Term Review
NEPAD	New Partnership for Africa's Development
NPO	National Program Office
OCVP	Operations Vice-Presidency - Central and West
ONVP	Operations Vice-Presidency - North, East and South
OPEV	Operations Evaluation Department
PAR	Projects at Risk
PBL	Policy-Based Loan operation
PCR	Project Completion Report
PDRE	Development Research Department
PIU	Project Implementation Unit
POPR	Operations Policies and Review Department
PPER	Post Performance Evaluation Report
PPRU	Procurement Unit
PRSP	Poverty Reduction Strategy Paper
PRST	Presidency Complex (Cabinet, AUDT, OPEV, GCEL and TRIB)
PRVP	Policy, Planning and Research Vice-Presidency
PSDU	Poverty Reduction and Sustainable Development Unit
QEA	Quality-at-Entry Assessment
QSA	Quality-of-Supervision Assessment
RBM	Results-Based Management
RMC	Regional Member Country
SPIP	Sector Portfolio Improvement Plan
SWAp	Sector-wide approach program
TM	Task Manager
TRA	Temporary Relocation Agency
TRIB	Tribunal (of the Bank)
UA	Unit of Account (its value is equivalent to the Special Drawing Rights unit of the IMF)

## EXECUTIVE SUMMARY

Since 1995, the Bank has implemented a number of major initiatives aimed at improving the quality and development effectiveness of its operations, strengthening its financial management, and reinvigorating its internal organizational structure. A major decision was the reorganization of the Operations Complex into two separate Complexes with a view to more closely realigning Bank operations to client needs and priorities, as well as the creation of a new Complex responsible for strategically oriented policy, planning and research. The reorganization of the Operation Complexes has streamlined the workload that previously fell under one Vice Presidency. Furthermore it has facilitated country focus and dialogue and has enhanced country programming, whereby the Bank is able to play an increasingly important role in formulating strategy at country, sectoral and thematic levels. The reorganization has also led to enhanced quality, both in the implementation of ongoing operations and in the design of new ones. To further improve its institutional performance, the Bank is currently developing and implementing, through Strategic Activity Centres, an approach to managing the various units of the Bank, to ensure complete integration of its strategic planning, budgeting and lending programme priorities.

In order to continuously improve on the quality of its operations, Management constituted a Working Group to reflect on issues affecting the implementation of the Bank Group activities. During the ADF-IX mid-term review meeting, the Deputies requested the Bank to develop an Action Plan to improve the implementation of ADF operations. The Action Plan was presented to Deputies in Kampala who found it comprehensive and ambitious. The Deputies requested that the proposed actions be prioritised and that clear monitorable indicators to assess results and the time frame for each action be spelt out. They also requested that the plan be harmonized with recommendations of the Independent Evaluation of ADF VII-IX. This revised Action Plan, therefore, takes into account comments made by Deputies and integrates the findings and recommendations of the Independent Evaluation of ADF VII-IX. The actions proposed in the Action Plan have been designed and prioritised, to reflect the findings of the Independent Evaluation.

In line with the request of the Deputies, the proposed actions have been grouped into three priority areas; namely:

- Actions related to the improvement of Bank capacity and responsiveness, in particular, staffing, decentralization of Bank operations and disbursement.
- Actions that consolidate achievements and continuously strengthen the quality of Bank operations.
- Actions that further deepen the Bank's development effectiveness, in close collaboration with other development partners.
- Actions to strengthen the Bank's research function, develop its communications strategy, and enhance its comparative advantage.

## **Human Resources**

*The Bank has adopted a proactive stance to human resources management in three main areas: (a) the development of a competency-based skills inventory in order to identify any skills gaps; (b) the launching of a major recruitment drive to fill outstanding vacancies with highly qualified staff; and (c) the intensification of training courses to close skills gaps.*

*The Bank has re-launched the staff recruitment drive, which was suspended following the temporary relocation of the Bank headquarters to Tunis. By early November 2004, 106 new staff had been competitively selected for recruitment. Of these 82 have already taken up their appointments. Vigorous efforts are being made to achieve the targeted recruitment of 100 professional staff positions in 2004. This will bring the filled positions to 665 out of 734 total budgeted Professional level positions by end December 2004, which is a vacancy rate of about 9% as compared to 19% in January 2004. The recruitment drive also aims at improving the staff skills mix in particular in the Operations Complexes.*

*Management has had a preliminary review of the implications in terms of staff requirements to enable the Bank address the issues raised by the Independent Evaluation in particular in the area of development effectiveness and impact of its operations, as well as in discharging effectively its new mandate in the areas of governance, water and NEPAD. These preliminary estimates indicate that additional staff requirements will be 177 professional staff and 33 support staff for the period 2005-2007 bringing the total staff establishment to 1,403 compared to 1,196 during 2004. Management is in the process of presenting to the Boards a "New Accord" to identify resource needs and the implications for the Bank to move forward and consolidate its position as a leading development financial institution on the African continent. If the New Accord is approved, staffing at the professional level in the Bank will increase by 280 during ADF-X compared to the level during ADF-IX. About 50% of this number will be in the Operations Complexes. This should put the Bank on a good footing to handle a significant replenishment. The Delegation of Authority Matrix has been revised in its scope to further empower Managers to facilitate decision-making and better utilization of available staff resources by moving special staff competences to departments and units where they are most required.*

*The Bank has developed a Human Resources Strategy that fosters a corporate climate that enables all employees and work groups to make the highest contribution to the Bank's corporate objectives. This strategy, which is under implementation, is continuously under review to ensure that the Bank keeps abreast of developments in the area and that it attracts and retains high calibre staff.*

## **Decentralization**

*A decentralization strategy and an accelerated implementation timetable presented to the Board in September 2004, envisages the opening of 8 offices in 2005 and another 8 offices in 2006. The Bank's field office programme consists of opening gradually 25 field offices (20 country offices and 5 regional offices) by the end of 2006. To date, 8 Regional and Country Offices (Egypt, Ethiopia, Gabon, Nigeria, Senegal, Tanzania, Mozambique and Uganda), and 8 National Programme Offices (NPOs) (Cameroon, Mozambique, Rwanda, Algeria, Eritrea, Guinea Bissau, Sao*

Tome and Principe, and Sierra Leone) have been established or are in the process of being established. The opening of additional Regional and Country Offices during 2005-2006 will involve the upgrading of existing NPOs into Regional or Country Offices as well as the opening of new field offices in some countries. The field offices will gradually take over country dialogue and aid coordination, and they will be delegated authority on procurement and disbursement matters commensurate with their staff resources. The field offices will maintain close contacts with RMCs and will strengthen country programming, donor coordination and project preparation and implementation. Management will establish and monitor quantifiable indicators to measure the progress made in the size and quality of the Bank Group portfolio in the countries covered by the field offices.

### **Portfolio Quality and Disbursement**

Management is committed to take more measures to improve portfolio quality and disbursement. During 2004, the disbursement ratio is projected to rise to 18.2% compared to 12.3% in 2003. A disbursement rate of 25% is projected for 2005 and beyond, while the level of non-performing operations will be reduced to less than 10 percent of the portfolio. Some of the measures that the Bank has put in place include improved linkages between lending and performance, and the alignment of Bank strategies to country priorities as defined in PRSPs. Furthermore, the Bank has improved operational selectivity, increased the use of participatory approaches at all project cycle stages, enhanced supervision, and strengthened its partnership and coordination with other development partners at both the corporate and country levels, in a bid to optimise its assistance to lower-income ADF countries. As a result of these measures, the number of problem projects has been reduced from 238 operations or 35% of the portfolio in 1995 to 32 operations or 9.8% in 2003. The proportion of projects-at-risk (PARs) declined from 45% in 1996 to 31 percent in 2003. Commitments-at-risk followed the same trend, declining to 26% in 2003 from 39% in 1996. The Bank's evaluation department, OPEV, reports that the Rating for Overall Outcome for the exiting portfolio in 2001 and 2002 was satisfactory or highly satisfactory for 78% of the projects by both number of projects and project value. This suggests that more and more projects are satisfactorily achieving both their immediate and longer-term objectives and are providing sustainable results to the benefit of the targeted communities.

However, as a result of the difficult situation in the host country, Côte d'Ivoire, at the end of 2002 and the subsequent temporary relocation of the Bank to Tunis in the spring of 2003, there was a break in the "improvement" trend of some indicators. For example, ageing projects, which had declined from over 200 in 1995 to 69 in 2002, rose again to 114 in 2003. In 2003 the disbursement ratio dropped to its lowest level for 8 years, resulting in a small increase in undisbursed balances. The slowdown in disbursements is attributed to the disruption caused by the temporary relocation, low capacity in procurement administration in borrowing countries and the unfavourable situation in war-torn and post-conflict countries. The Bank is currently examining the portfolio of completed projects with undisbursed balances to ascertain that there are no pending contracts before cancelling the residual balances. This exercise led to the cancellation of UA 159 million by end-October and is projected to reach a total of UA 200 million by end-December 2004. The Bank will continue to step up its efforts to improve portfolio management through the actions proposed in this Implementation Action Plan.

*Management will also continue to implement the actions in the Implementation Action Plan directed at improving the efficiency in disbursement administration. These actions mainly involve the training of staff of Executing Agencies and Bank staff in disbursement rules and procedures; delegation of disbursement responsibilities to field offices; streamlining of loan conditionalities (made simpler and fewer); reduction in the length of time before loans become effective; increased loan size; participation in Budget Support and some aspects of SWAps which are quick disbursing; and the positioning of procurement specialists in Operations Complexes.*

### **Strengthening the Research Function, Communications Strategy and Comparative Advantage**

*The research function will be strengthened in particular in themes that relate to the practical operations of the Bank and its mission. Within the Action Plan, Management will undertake a critical analysis of the characteristics of the Bank's African character and assess their role in its comparative advantages vis-à-vis other development agencies. Through the Communications Strategy, which is currently under preparation, and the Bank Group Disclosure of Information Policy, the Bank will engage with beneficiaries of its interventions and the general public – which will contribute to enhancing implementation effectiveness and the development impact of its operations.*

### **Impact of the Action Plan**

*The main expected impacts from the implementation of the Action Plan are the Bank's improved capacity and responsiveness to operational challenges, and enhanced project implementation arising from:*

- *strengthened support for institutional capacity building at the country level for planning and project implementation;*
- *further improvements in quality-at-entry such as better alignment of CSPs to PRSPs and PRSPs to MDGs;*
- *better design of projects through enhanced mainstreaming of cross-cutting issues (good governance; environmental sustainability; and gender) and streamlining conditionalities;*
- *stringent enforcement of covenants and conditions applicable to loans;*
- *a reduction in the time taken for: (a) loan signature by borrowers from almost one year to less than 6 months; (b) loan signature to loan effectiveness from more than 12 months to below 6 months; (c) procurement time to between 8-10 months from the present 13-20 months;*
- *enhanced quality of supervision through an improvement in the skills mix of missions and systematic undertaking of mid-term reviews;*
- *improved disbursement rates;*
- *better enforcement of project audits;*
- *progressive implementation of results-based management systems;*
- *strengthened research capacity; and*
- *Improved coordination and harmonization at the country level.*

*With these improvements, the level of problem projects will be maintained at less than 10 percent. The 2003-2007 Strategic Plan, with its focus on selectivity and increasing development effectiveness, will serve to support these initiatives.*

*In addition, efforts will be made to improve the analytical quality of the Project Completion and Performance Evaluation Reports, while taking due account of the relevance of the lessons learned and best practices in recommendations for the design and implementation of future operations in the context of Results-based management. As the focus on implementation increases, the Bank will intensify its involvement in the harmonization agenda to reduce compliance costs for borrowers and consolidate its strategic alliances and partnerships in the quest for operational quality. The Bank will consider delegating suitable development partners to represent its views at country-level meetings where it does not have field offices.*

*The principal expected outcomes of this Action Plan are improved capacity and responsiveness within the Bank, better portfolio management and development effectiveness at the country level.*

*The attached Annexes detail the time-bound actions that will be taken to bolster the quality of implementation. These actions include further enhancement of country programming; design of projects and programmes; operations supervision; procurement and disbursement administration; and the incorporation of lessons learnt and best practices.*



## **1. Introduction**

1.1 In pursuit of further improvement of the quality of the Bank Group portfolio and its development effectiveness, Management constituted, in September 2003, a Working Group to reflect on problems affecting implementation of Bank Group operations. Subsequently, during the ADF-IX Mid-Term Review meeting, the Deputies requested Management to develop an Action Plan to improve implementation of ADF projects and programmes. In response to this request, Management presented an “Action Plan to Improve the Implementation of ADF Operations” during the second meeting of the ADF-X Consultations. In discussing the plan, the Deputies noted that it was comprehensive and ambitious. For the September 2004 meeting in Tunis, they requested that the proposed actions be prioritised and that clear monitorable indicators to assess results and the time frame for each action be spelt out. They also requested that the plan be harmonized with recommendations of the independent evaluation of ADF VII-IX.

1.2 This Action Plan takes into account comments by Deputies during both the Kampala and Tunis meetings, as well as findings and recommendations of the Independent Evaluation. The findings of the Independent Evaluation have been taken into account in the prioritisation of the actions in the revised Action Plan. The proposed actions have been grouped into four priority areas as follows:

- Priority Area 1 consists of actions related to the enhancement of the organizational capacity and responsiveness, in particular staffing, decentralization of Bank operations, and coordination. These actions are considered as pre-requisites for long-term improvements and development effectiveness. Priority area 1 also includes actions directed at improving the management of the portfolio that are ongoing and have low additional resource requirements.
- Priority Area 2 focuses on actions that consolidate achievements under priority area 1, and continuously strengthen the quality of Bank operations, taking into account its commitment to results-based management.
- Priority Area 3 consists of actions that further deepen the Bank’s development effectiveness in close collaboration with other development partners.
- Priority Area 4 outlines actions to strengthen the research function, develop a communications strategy and review and develop the Bank’s comparative advantage in relation to the activities of other donors.

1.3 The document is organised as follows: Following this introduction, Section 2 presents a brief summary of the findings of the Independent Evaluation. Section 3 outlines the priorities and provides the timing and relevant indicators for their implementation. Section 4 focuses on a monitoring and evaluation system for assessing progress in the implementation of the proposed Action Plan, while Section 5 concludes with key milestones of the Action Plan. The attached Annex 1 further elaborates on the actions to be taken and sets target dates and indicators to measure progress during the implementation of the Action Plan. Annex 2 lists the key indicators

that will be used in the evaluation of the progress of the Implementation of the Action Plan both at the Mid-Term mark and in the long term.

## **2. Findings of the Independent Evaluation of the ADF VII–IX**

2.1 The Independent Evaluation assessed the framework of ADF strategic objectives, and the extent to which the ADF has been successful in increasing the development effectiveness of its operations from 1996 to date. The Independent Evaluation highlighted the need to address the following areas:

- (i) Staffing in terms of number and skills mix;
- (ii) Effectiveness of the Bank's country focus;
- (iii) Adequacy of its research programme and knowledge generation capabilities;
- (iv) Efficiency of its managerial system in terms of underlying delegation of authority;
- (v) Level of presence at the country level;
- (vi) Effectiveness of the Bank's role in partnerships and coordination with other development agencies; and
- (vii) Bank comparative advantage and how its African character underpins this.

2.2 Management is addressing a number of these issues through the "Action Plan to Improve the Implementation of ADF Operations" which was initially presented to the ADF X Deputies in Kampala and subsequently revised for the Tunis meeting. The Action Plan, with an accompanying detailed implementation matrix, spells out measures and actions to be taken on specific key issues, and the target time frame. With regard to staffing and skills mix, the Action Plan proposes an increase in the level of professional staff by 280 during ADF-X compared to the level during ADF-IX. About 50% of this number will be in the Operations Complexes. The Action Plan proposes the strengthening of country teams and the review of their terms of reference so that the teams can have more authority in the management of country portfolios, and with emphasis on selectivity and stakeholder participation in the preparation of CSPs and PRSPs as well as in the design, preparation and implementation of projects and programmes. The focus will shift to providing support to regional member countries' alignment of national budgets to PRSPs and enhancement of measures to strengthen Bank assistance to Budgetary Support processes. The planned accelerated opening of field offices will further strengthen country focus. The revised delegation of authority will enable the field offices to gradually take over country dialogue and aid coordination in addition to delegated authority on procurement and disbursement matters commensurate with their staff resources. Country Departments have been assigned the overall responsibility of portfolio management.

2.3 The Action Plan calls for the consolidation and enhancement of strategic alliances and partnerships as an important principle in the quest for operational quality. The decentralization of the Bank's operations will further increase the Bank's presence in borrowing countries and deepen country focus and strengthen coordination with other donors at the country level. Field offices will also play an important role in the implementation of the harmonization agenda among donors at the country level. The

research function will be strengthened in particular on themes that relate to the practical operations of the Bank and its mission. A strengthened research function will not only contribute to improved understanding of the development issues in Africa but will also assist the Bank in sharpening and increasing its knowledge base in the areas in which it has comparative advantage. The Action Plan proposes that a critical review be undertaken of the main traits that together constitute the Bank's African character and assess their role in the comparative advantages that the Bank possesses over its competitors. These elements constitute the framework within which the actions have been designed and prioritised, to reflect the findings of the Independent Evaluation. Implementation on several areas of the Action Plan is already under way as part of the Bank's continuous effort at improving the quality of its operations. The main thrust of the Action Plan is, therefore, to consolidate the steady trend of improvements in the key areas of staffing, decentralization/country focus, and disbursement. Furthermore, some of the issues raised by the Independent Evaluation especially the resources needed to enable the Bank to move forward will be addressed in the "New Accord" to be presented to the Board.

2.4 The Action Plan aims at consolidating the steady trend of improvements in performance of the Bank Group portfolio since 1996 by bringing about significant improvements in key aspects of the processes of identification, preparation, implementation, and completion of operations. The plan spells out measures and actions to be taken on specific key issues, the leading and supporting Departments in the Bank to improve specific aspects of Fund operations, and the target timeframe for a particular action to get underway and be concluded as well as monitorable indicators to measure progress. The proposed actions are in line with the Bank's program of reforms (institutional, human and organizational) and respond to the request of Deputies at the meetings in Kampala and Tunis for more concrete actions to improve ADF operations. The actions are to be implemented within the Bank, at country level and at the level of donor coordination and partnerships with other stakeholders.

2.5 **Within the Bank**, the plan aims to: improve country programming; ensure quality at entry through use of the result oriented logframe as a design and project management tool; enhance the quality at implementation by improving operations supervision; strengthen internal capacity by filling up staff vacancies and improving the skills mix; enhance internal processes and procedures relating to procurements and disbursements management and effective use of the SAP Project Cycle Management System; increase the effectiveness of the operations review process; enhance decentralisation and country presence; broaden the delegation of authority; strengthen post-completion evaluation of Bank operations; and take concrete steps to implement results-based management.

2.6 **At the country level**, the plan targets to: support capacity building in RMCs in the preparation and management of PRSPs; improve stakeholder participation; strengthen the training of the staff of executing agencies in project planning, implementation and evaluation, procurement and disbursement administration; and ensure timely submission of audit, periodic and completion reports of acceptable quality.

2.7 **At the level of the donor community and other stakeholder level**, the plan aims to: build and/or strengthen more effective partnership within the framework of the

poverty reduction strategies of individual RMCs, with their authorities in the driver's seat; effectively coordinate donor inputs to RMCs development strategies; and harmonize donor policies and procedures to reduce transactions costs; harmonization of procedures, processes and activities with other donors; and develop objective measurements of development results.

### **3. Prioritisation of the Action Plan**

This section outlines the actions to be taken under each priority area. Actions under Priority Area 2 are built on achievements under Priority Area 1 while Priority Area 3 consists of actions that will deepen the development effectiveness of the Bank's interventions in RMCs. Priority Area 4 consists of actions that will strengthen the Bank as a knowledge based institution. The proposed actions are sequenced on the basis of priority ordering.

#### **3.1 Priority 1: Improving Organizational Capacity and Responsiveness (Staffing, Decentralization, Coordination) and Portfolio Management**

##### **A. Organizational Capacity and Responsiveness**

3.1.1 The main thrusts of the actions under this priority area are: (i) strengthening staffing levels, improving the skills mix and providing relevant training to staff; (ii) implementing the decentralization strategy, improving coordination with donors at the country level, increasing delegation of authority and accountability; and (iii) improving quality at entry and at implementation as well as procurement and disbursement administration.

- *Staffing*

3.1.2 Recruitment and Skills Mix. The Bank has re-launched the recruitment drive, which was suspended following the temporary relocation of the Bank headquarters to Tunis, with a view to ensuring the appropriate skills mix. The recruitment drive is targeting to raise the number of professional staff in the Operations Complexes to at least 50% of total professional staff positions in the Bank. As at early November 2004, there were 641 professional staff members (excluding the Board) at post out of a total of 734 budgeted positions. Between January and early November 106 new staff had been selected through a competitive recruitment process. Eighty-two (82) of these new staff members are already on board. Of this figure about 50% are in the Operations complexes. The on-going recruitment campaign aims at recruiting 100 professional staff by the end of 2004 with a view to enhancing the quality of operations and diversifying the skills mix, particularly in support of operational activities. The vacancy rate by the end of the year is expected to be 9% as compared to 19% in January 2004. By the end of 2004, the proportion of Bank staff in Operations Complexes will constitute 41% of the total number of professional staff. The Operations Evaluation Department (OPEV), for example, has been strengthened in 2004 with two staff, while four new positions will be filled in 2006 and 2007 with a view to bringing the department's staff complement to a total of 17 by end 2007. A needs assessment to determine the number of technical assistants needed to assist Task Managers in some routine activities associated with project management will be undertaken by June 2005. Table 1 indicates staffing levels at early November and end-December 2004.

**Table 1**  
**Staffing levels at mid-November and end-December 2004\***

<b>Complexes</b>	<b>2004 Budgeted Positions</b>	<b>Staffing as of 10/11/04</b>	<b>Expected Staffing at 31/12/04</b>
<b>ONVP</b>	169	149	
<b>OCVP</b>	143	115	
<b>Total Operations</b>	312	264	268
<b>PRVP</b>	109	89	
<b>PRST**</b>	76	68	
<b>FNVP</b>	68	66	
<b>CMVP</b>	169	154	
<b>Total</b>	734	641***	665

\* Excludes the Board.

\*\* Includes Units attached to the President's Office (OPEV, AUDT, TRIB).

\*\*\* Excludes staff on non-active status (secondment and study leave).

3.1.3 Cognizant of the fact that even with a significantly reduced vacancy rate, the Bank may not resolve its skills mix weaknesses, the shortfall in skills and competencies will be addressed through a mixture of training of existing staff, the implementation of the staff mobility programme, and the use of consultants.

3.1.4 A preliminary review of the implications in terms of staff requirements to respond to issues raised by the Independent Evaluation and to deliver effectively on the Bank's mandates in the areas of environment, gender, governance, water, private sector, regional integration and NEPAD has been conducted. These preliminary estimates indicate that additional staff requirements will be 177 professional staff and 33 support staff for the period 2005-2007 bringing the total staffing level to 1403 compared to 1196 for 2004. Management is in the process of presenting to the Boards a "New Accord" to clearly map out the resource gaps and the implications for the Bank of moving forward to consolidate its position as the leading development financial institution on the African continent. If the New Accord is approved, staffing at the professional level in the Bank will increase by 280 during ADF-X compared to the level during ADF-IX. About 50% of this number will be in the Operations Complexes. This should put the Bank on a good footing to handle a significant replenishment.

3.1.5 Training of Bank Staff. The Bank will organize staff training in the context of a comprehensive training programme on issues that will include updates on the policies of the Bank; more effective use of the results-based logframe as a project management and evaluation tool at all stages of the project cycle as well as in the use of a results-based CSP; results-based management; guidelines for project design (including economic analysis); financial analysis and management; monitoring and evaluation; participatory approaches; awareness in harmonization and alignment issues and procurement and disbursement administration, consistent with the emerging international framework to develop effective procurement systems in developing

countries. All Task Managers will be trained in the results-based logframe by December 2005. The training effort will also be directed at equipping staff with skills needed for the effective dissemination of operational policies within and outside the Bank. The Bank will develop a career development programme for Managers in the context of effective decentralization.

3.1.6 Human Resources Strategy. The Bank has developed a Human Resources Strategy that fosters a corporate climate to enable all employees and work groups to make the highest contribution to the Bank's corporate objectives. The cornerstone of the Bank's Human Resources Strategy is to recruit, develop, utilize, motivate and retain its human resources to achieve its corporate mission. In addition the Bank Human Resources Strategy aims at creating an enabling environment for professional growth, creativity, innovation, productivity and effective utilisation of talents. This strategy, which is under implementation, is continuously under review to ensure that the Bank keeps abreast of developments in the area and that it attracts and retains high calibre staff.

3.1.7 Building Country Capacity: As part of the process to increase capacity at the country level for portfolio management, the Bank will continue supporting training programmes in planning, management and monitoring of project activities, as well as procurement and disbursement rules and procedures. The plan is to train 50 Executing Agencies' staff by December 2004 and thereafter 490 per year.

- *Decentralization and Field Offices*

3.1.8 A decentralization strategy and implementation timetable presented to the Board in September 2004 envisages in addition to the existing 8 regional and country offices, the opening of 8 offices in 2005 and another 8 offices in 2006 (see Table 2). Field offices are important towards the achievement of the Bank's operational objectives in respect of project processing, field supervision of projects, country programming and Bank representation in key donors' coordinating meetings at the country level. The Board had approved in 1999, the Bank's field office programme consisting of opening 25 field offices (20 country offices and 5 regional offices) by the end of 2006. Following the Board's approval, Country and Regional offices have been opened in Egypt, Ethiopia, Gabon, and Nigeria while in Cameroon, Mozambique, and Rwanda there are National Programme Offices (NPOs). New country offices have been established during 2004 in Tanzania and Uganda, in addition to a regional office in Senegal. Board approval has also been obtained to turn the Mozambique national programme office into a regional office. Other National Programme Offices that have been approved by the Board of Directors and for which arrangements for the opening of the offices are in the process include Algeria, Eritrea, Guinea Bissau, Sao Tome and Principe and Sierra Leone.

3.1.9 The opening of field offices during 2005-2006, will involve the upgrading of existing (NPOs) into Regional or Country Offices as well as the opening of new field offices in some countries. The decentralization strategy outlines the functions of field offices and terms of reference of staff, delegated authority in procurement and disbursement administration, while maintaining the Bank's appropriate standards and controls, the role of field offices in promoting country dialogue, budgetary impact of the decentralization process, staff needs, and incentives for field office staff. The field

offices will gradually take over country dialogue and aid coordination, and they will be delegated authority on procurement and disbursement matters commensurate with their staff resources. Management will establish and monitor quantifiable indicators to measure the progress made in the size and quality of the Bank Group portfolio in the countries covered by the field offices. The field office manual will be revised to reflect the proposed delegation of authority given to field offices.

**Table 2**  
**Programme for Opening Field Offices**

<b>1<sup>st</sup> Batch</b>	<b>2<sup>nd</sup> Batch</b>	<b>3<sup>rd</sup> Batch</b>	<b>4<sup>th</sup> Batch</b>
Egypt	Mozambique (Botswana, Lesotho, Namibia, South Africa, Swaziland)	Algeria	Angola
Ethiopia	Senegal* (Cape Verde, Gambia, Mauritania)	DR Congo (Congo)	Burkina Faso
Gabon (Equatorial Guinea)	Tanzania	Ghana	Cameroon (CAR)
Nigeria	Tunisia**	Kenya	Chad
	Uganda	Madagascar	Malawi
		Mali	Sierra Leone
		Morocco	Sudan
		Rwanda	Zambia

\* *It is proposed that Gabon covers Equatorial Guinea*

\*\* *Superseded by the TRA*

3.1.10 In Table 2, the first batch includes the current offices approved in 1999 and which are already operational. The second batch includes the offices approved in 2002 and arrangements are being made to ensure that they become operational during the first half of 2005. The third batch of offices are planned to be made operational during the first half of 2006 while the fourth batch of offices are scheduled to be operational during the second half of 2006.

3.1.11 The staffing of field offices in terms of numbers and skills of professional and support staff will be commensurate with the size of the country portfolio, intensity and vastness of donor coordination work. The staffing of the field offices will consist of a minimum of two internationally recruited staff (Country Resident Representative and Country Operations Officer) complemented with locally recruited staff. Whenever possible, the country economist will be transferred to the field office. It is planned to open additional field offices and operationalize the 25 field offices by 2006 through an accelerated implementation programme as stressed by both the Governors and the ADF Deputies during the Annual Meetings in Kampala in May, 2004. The pace of decentralization will be undertaken taking into account feasibility, prudence and effectiveness to secure good quality field offices.

**3.1.12 Improving Coordination with Donors at the Country Level:** The consolidation and enhancement of strategic alliances and partnerships is an important principle in the quest for operational quality. The decentralization of the Bank's operations will further increase the Bank's presence in borrowing countries and deepen country focus and strengthen coordination with other donors at the country level. The Bank will also consider delegated cooperation arrangements through selected donors who will represent the views of the Bank at country level meetings where the Bank does not have field representations. The Bank will increasingly take leadership roles in countries where it has a field office presence and in areas where it has comparative strengths. Field offices will also play an important role in the implementation of the harmonization agenda among donors at the country level.

**B. Improving the Management of the Portfolio (Quality- at- Entry and Quality-at- Implementation)**

**3.1.13 Improved Review Process and Compliance Function:** The review process, which was put in place in 1999, has been revised. The main purpose of the review process is to ensure that documents conform to set quality standards defined in the Bank's Operations Manual, including compliance with policies and guidelines, legal covenants, procurement and disbursement rules, ADF directives and international best practice. The transfer of experienced operations' experts to the Operations Review and Quality Assurance Division and through training will further strengthen quality assurance, through the review process. The focus of the work of that Division will be to evaluate selected strategic programming and programme/project lending documents, to ensure that they comply with Bank Group policies, meet the expected quality standards and are presented in accordance with approved standard formats for Bank documents. The review process has been made less cumbersome and more focused on strategic areas, and promotes inter-departmental participation with the involvement of senior sector and thematic experts. It is intended to promote responsibility and accountability at the different stages of the process. Both internal and external peer review of project documents will be encouraged to enhance the technical quality of documents. Internal peer reviewers will have shared responsibility with the Task Managers for the technical quality of the project/programme documents. Some provisions of the revised review process have been incorporated in the revised Delegation of Authority Matrix, which was launched in May 2004. The revised Review process became effective in September 2004. A checklist has been prepared to guide Review and Quality Assurance Division's staff in their compliance oversight function and in their review of operational documents. Sensitisation of the staff of the Operations Complex on the review process will be undertaken in January-February 2005.

**3.1.14 Enhancing Country Programming and Country Focus:** To enhance selectivity at the country level, the Bank is taking important steps to further align the focus of its CSPs with the priorities of Poverty Reduction Strategy Papers (PRSPs) and the alignment of PRSPs to MDGs. The focus will shift to providing support to regional member countries' alignment of national budgets to PRSPs through training and support to the PRSP process, and on the enhancement of measures to strengthen Bank assistance to Budgetary Support processes. A number of on-going PBLs and other projects already have components to assist countries align their budgets to PRSPs.



Country and Thematic Teams will be reinforced and empowered to enable them effectively influence the programming, design and management of country portfolio and in the development of Country Strategy Papers. New terms of reference for Country and Thematic Teams will be prepared and disseminated and it is expected that 33 Country Teams will be meeting regularly by March 2005. The revised Delegation of Authority Matrix provides for an increased role for Country Programme Managers and Directors in the planning and management of country portfolios.

3.1.15 Enhancing Programme/Project Design: The mainstreaming of crosscutting issues during design will be strengthened by the recruitment of additional experts in the areas of gender, population and environment to improve the skills mix of project preparation, appraisal and supervision missions. Recruitment of staff with expertise in crosscutting issues is part of the on-going recruitment exercise. Systematic use will be made of a results-oriented logframe with impact and outcome indicators incorporating risk analysis and sustainability assessment. It is planned that the results-oriented logframes will be in use by December 2005. Project preparation and implementation teams will be more informed by the country diagnostic reports such as Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Reviews (CPARs), and more attention will be given to mobilizing effective beneficiary participation in project design and implementation. The first Quality-at-Entry Assessment (QEA) report, which will examine the quality of indicators in logframes will be prepared during the second quarter of 2005.

3.1.16 Efforts will be directed at ensuring that loan conditionalities are not impediments to effectiveness and first disbursement and that the conditionalities are achievable within a realistic time frame and do not become obstacles to project start-up. Loan conditionalities will be streamlined – made simpler and fewer – and a system to assist and guide member countries meet and fulfil these conditionalities before appraisal reports are presented to the Board, will be put in place. This will apply to all loans appraised after 1 September 2004. In line with the practice at the World Bank, the Fund will consider single tranche approach for Policy-Based Loans and Budget Support operations where appropriate, with a view to front-loading loan conditions and important reforms, in those instances where appropriate policies and fiduciary controls are in place. The loan size will be increased in line with the move towards more involvement in Sector Wide Approaches and Budget Support Programmes based on the priorities in CSPs and in line with the policy guidelines approved by the Board. This will contribute towards achievement of better programme impacts and outcomes and better use of resources. Where Parliamentary ratifications for new loans are required, efforts will be made to engage governments to shorten the ratification process. New loans that are not effective within 12 months of loan approval will be cancelled. These actions will be implemented immediately.

3.1.17 Enhancing Quality of Supervision: The quality of the supervision process in spite of the improvements during the past five years, still remains not fully satisfactory, primarily due to shortfalls in staffing, the short duration and inadequate skills mix of supervision missions. The on-going recruitment of new staff and the continuous training of staff will contribute to strengthening staffing levels and skills mix for supervision. Where specific technical expertise is required (e.g. financial, procurement etc), these will be added to supervision mission teams. Supervision mission duration will be

proportionate to the complexity of the project, the project's rating (e.g., problematic or potentially problematic project), and the skills mix composition of the mission. Supervision quantitative targets of 1.5 supervisions per year for satisfactory performing and 2.0 supervisions for problem operations will be maintained.

3.1.18 A further step to improve the quality of supervision includes the revision of the supervision format before March 2005 that will re-orient Task Managers on field supervisions to focus on the attainment of project results and outcomes. A Quality of Supervision Assessment (QSA) procedure will be introduced as a tool to assess and monitor supervision effectiveness. In the medium term the Bank will set supervision targets in number of person-days/year (15 person-days per project). In addition to supervision missions, Mid-Term Reviews will be undertaken more systematically and with the right skills mix and sufficient mission duration to address on time structural defects in project design and implementation. Quality of Supervision Assessments will be systematically undertaken to rate the quality of supervision and suggest remedial action. Such assessments will be done beginning June 2005.

3.1.19 Delegation of Authority and Accountability: The Delegation of Authority Matrix has been revised and re-launched. The revision was aimed at widening the scope of delegation of authority to empower Managers who are in Operations and the supporting services with more authority to make decisions to enable desirable actions to be taken on time. The revised Delegation of Authority Matrix grants authority to Directors to approve missions of their staff (previously under the authority of Vice Presidents) and doubles the contract signature thresholds for Division Managers, Directors and Vice presidents to facilitate the recruitment of consultants. The revised Delegation of Authority Matrix, which became effective in March 2004 also incorporates some provisions in the new Field Offices Manual that provides for a role for field offices to assist projects in the preparation of bid documents and in the review of Bid Evaluation Reports before they are submitted to Headquarters. The Coordination Matrix, which outlines coordination responsibilities among and between complexes and departments, has also been revised in line with the Delegation of Authority Matrix. The immediate actions will be to sensitise staff and Managers to promote uptake of authority and decision making power, the new provisions in the revised Delegation of Authority Matrix and to ensure that the Managers discharge their responsibilities in line with the revised matrix and that they are accountable for their actions. In particular to the degree that field offices play an enhanced role in the administration of procurement and disbursement activities, efforts will be made to ensure that the Bank maintains its critically important fiduciary controls. Information seminars for staff will be organized in this regard, during February 2005.

3.1.20 Improving Procurement and Disbursement Administration: The Bank will continue with its efforts in training both Bank and regional member country staff in procurement and disbursement rules and procedures, to support a move towards greater reliance on national procurement systems that conform to international recognized standards, in addition to the training provided during launching missions. About 14 countries with an attendance of 35 participants in each country will be covered each year. Launching missions will include procurement and disbursement specialists to assist in familiarizing executing agencies with Bank rules and procedures. Field offices will be delegated with more procurement and disbursement responsibilities.

Procurement specialists will be recruited for the Operations Complexes while at the country level procurement agents will be used where this is found to be cost effective. Steps will be taken to maintain the Bank's stringent procurement and financial controls. The outcome of these actions will be the reduction in procurement time to between 8 and 10 months from the current procurement time of between 13 to 20 months and the reduction in disbursement time from the current 15 to 10 days. These actions that are on going will be fully implemented by December 2004. Table 3 indicates the trends in disbursements for the period 1996 to 2004.

**Table 3**  
**ADF Disbursement Table, 1996-2004**  
**(UA million)**

Indicators	1996	1997	1998	1999	2000	2001	2002	2003	2004
Commitments	199	745	576	426	652	944	697	996	
Disbursements	435.1	478.9	442.5	369.1	281.1	369.1	544.7	368.1	621.2
Undisbursed Balance (a)	1,877.9	1,945.5	2,114.6	2,186.2	2,363.6	3,001.6	3,004.3	3,416.1	
Disbursement Ratio (b) %	17.1	25.5	22.7	17.5	12.9	15.6	18.1	12.3	18.2

(a) Cumulative undisbursed balance at the end of the year

(b) Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the end of the previous year

3.1.21 It will be noted from Table 3 that there was a downward trend in the disbursement ratio from 1997 to 2000, which was then stabilized in 2001 and increased in 2002. The general decline is attributed to the increase in new loan approvals after ADF replenishments were renewed in 1996/1997. In 2001, disbursement rose to 15.6 percent. By 2002, disbursement increased to 18.1 percent. Due to the transfer of the Bank to an agency of temporary relocation (ATR), 2003 was an unusual year for Bank activities because it resulted in a 3-4 month period when Task Managers were not in full communication with partner agencies in the RMCs. The slowdown in disbursements is also attributed to low capacity in borrowing countries in disbursement administration, delayed loan effectiveness and the unfavourable situation in war-torn and post-conflict countries. It is during this period that the disbursement ratio decreased to its lowest point in 8 years, at 12.3 percent, slightly below the figure of 12.9 percent in 2000. From January to end-October 2004, UA 518.53 million was disbursed. Overall disbursement is projected to reach slightly over UA 620 million or a disbursement ratio of 18.2 percent. The disbursement ratio is expected to rise further during 2005 and the years beyond as Management continues to take action to enhance portfolio management, improve the efficiency in disbursement administration through the implementation of actions to train staff of Executing Agencies and Bank staff in disbursement rules and procedures, delegation of disbursement responsibilities to field offices and the recruitment, reduction in the length of time before loans become effective, increased loan size, participation in Budget Support and SWApS which are quick disbursing and positioning of procurement specialists in Operations Complexes. A disbursement rate of 25% is projected for this period.

**3.1.22 Regularizing Project Audits:** A number of actions are being taken to address the problems associated with audits. A Task Force comprising operations Complexes, AUDIT and CIMM recommended various measures to improve project audits, including suspension of disbursements on loans for which audit reports have not been submitted over a specified period during which borrowers would be given notice. The recommendations are under implementation. A directive will be promulgated by March 2005 identifying the respective responsibilities of Task Managers and AUDT in the follow-up of independent external audit reports and in broadening the scope of project audits to include consideration of progress towards obtaining development effectiveness. Regional member countries will be required to complete all outstanding independent external audits by June 2005. By the same target date SAP will have been programmed to issue warnings to staff and Managers when audits are overdue. For projects where allocations for independent audits were not made, project mid-term reviews will be used to reallocate project component costs for this purpose. Where necessary, during supervision missions, qualified local auditors will assist Task Managers address project audit issues. Audit capacities of countries will be assessed by December 2005. AUDT will continue to prepare an Annual Report on the implementation of Audit Reports' recommendations.

**3.1.23 Portfolio Clean Up:** Based on the results of the APPR, the Operations Complexes have undertaken a portfolio cleaning exercise with a view to identifying completed projects with balances, persistent problem projects, aging projects and Technical Assistance operations, projects with slow disbursement or which are not yet effective, with a view to either cancelling them or setting a final irrevocable closing date. The thrust of the exercise was to ensure the consistent and effective application of existing rules for the cancellation of non-performing loans. The exercise also was intended to promote dialogue between the Bank and governments on the management of country portfolios. The removal of non-performing operations will free up valuable human resources to focus on those operations whose implementation is normal, on course, and able to produce results. This exercise has led to the cancellation of UA 160 million by July and is expected to increase to UA 200 million by end of September 2004.

**3.1.24** The schedule of portfolio clean-up activity is as follows: by end-March 2005 identify (i) all closed projects with outstanding balances; (ii) projects eligible for cancellation (now available in SAP) i.e. operations exceeding 180 days to signature; or, no disbursements in over two years; (iii) persistent problem projects (for a period equal or greater than two years), and (iv) aging operations. By end-December 2004, a decision on the course of action will be taken on all of the above operations; and final closing dates for all retained operations will have been set. By end-January 2005, cancellation letters, where needed, will be sent.

## **3.2 Priority 2: Further Strengthening of the Quality of Bank's Operations**

**3.2.1 Use of APPR Results:** Starting in 2004, Country Portfolio Improvement Plans (CPIPs) will be required annually for countries with elevated levels of projects-at-risk. A list of 19 countries needing CPIPs has been selected, and CPIP reports will be prepared by December 2004. In addition Sector Portfolio Improvement Programmes (SPIPs) for sectors showing highest level of projects-at-risk (PAR), which will incorporate proposals in the CPIPs worked out with selected countries, will be designed. The SPIPs will review

portfolio performance improvement from strategic and long-term perspectives, in terms of overcoming long-standing structural weaknesses and constraints. The first sets of SPIPs are planned to be completed by December 2005.

**3.2.2 Economic and Sector Work (ESW):** The Independent Evaluation raised the issue that ESW at the country level is of highly uneven quality and that this is a major barrier to improved quality at entry of projects and programmes. The Bank has made a start in strengthening ESW which is intended to sharpen the poverty-focus of Bank financed interventions at the country level, enrich the content of CSPs, provide inputs for PRSPs, and enhance coherence across sector policies. In future, ESW will lay emphasis on the agricultural sector and governance, which are the most important sources of pro-poor growth in many African countries. While the Bank will continue to utilize ESW done jointly or elsewhere, it also will endeavour to develop its own specialized capacity in this area through the recruitment of more economists and sector specialists. This will be done through increasing resources for ESW and increasing Bank presence in RMCs to enhance policy dialogue, harmonization and coordination. The need for scaled up activities in ESW is further reinforced by the trend of the Bank moving towards participation in multi-donor supported SWAPs and Budget Support. It is planned to undertake 25 ESWs during 2005.

**3.2.3 Post Evaluation:** As a result of a backlog of projects for which no completion reports or post-performance evaluation reports have been prepared, measures will be instituted to clear the backlog and systematically programme the completion report preparation process to obtain the optimum rate of coverage of completed projects. Thirty (30) PCRs will be completed by March 2005. PCR guidelines will be reviewed to deepen the analysis on performance and sustainability factors and overall evaluation of development results. In addition, efforts will be made to improve the analytical quality of the completion and performance evaluation reports and the relevance of the lessons learned and recommendations for the design and implementation of future operations in the context of RBM. The Operations Evaluation Department will prepare an annual development effectiveness report starting in 2005 and disseminate the main lessons learnt and best practices. In addition an annual report on PCRs and lessons learnt will be prepared. Furthermore, efforts will be made to ensure that sufficient resources are allocated to monitoring and evaluation activities in new projects while in on-going projects with insufficient allocations, mid-term reviews will be used to reallocate resources for these activities.

### **3.3 Priority 3: Actions That Further Deepen Development Effectiveness and Partnerships**

**3.3.1** These actions will include training of staff in RBM, the finalisation of the preparation of an RBM Action Plan, harmonization of activities with other donors and within RMCs under the framework of the “good practice principles”, and decentralization to improve Bank visibility at the regional and country level and bring the Bank closer to its clients.

**3.3.2 Training in RBM:** A number of actions will be taken during 2004 to move the Bank further with respect to becoming a Results-Based Management institution. During the year 2004, the Bank will work at three levels, as follows: at the country level, the

Bank will be seeking Board approval of a UA14.75 million grant from ADF resources to provide financial support to statistical capacity building. It is also undertaking institutional support through the training of RMC officials in Bank procedures on procurement and disbursement, and various JAI training programs to increase RMC economists' analytical capabilities. At the Bank level, 100 Bank staff will be introduced to basic concepts of RBM by June 2005 while risk mitigation and learning systems will be introduced to staff by March 2005. A CD-ROM on logframe training, obtained from the Inter-American Development Bank (IADB), has been reproduced and distributed to selected Bank staff.

**3.3.3 RBM Action Plan:** Within the institution, the consultant's report on the ADB's Blueprint and implementation plan to become an RBM institution will be finalized by January 2005. This plan will lay out in a scheduled, orderly manner activities that will be undertaken for the Bank to have a smooth transition to RBM processes. The implementation will include components such as raising staff awareness, an IT upgrade schedule, change management activities, and staff training.

**3.3.4 Other RBM Measures:** The Bank is also undertaking a number of results-related measures that it anticipates will accelerate the transition to becoming a Results-based institution. These include (as mentioned in the Action Plan): development of results-oriented tools, such as a RB-enhanced logframe, which has a greater focus on outcomes); development of a Results-based CSP format for use by January 2005; the upgrading of the supervision report format that will increase the focus of supervision on managing for results, and not just managing for inputs. With respect to the third tier, the ADB will continue to fully participate in the global partnership on Managing for Results (MfR) by contributing to the MDB Working Group on MfR in the areas of: developing learning materials for staff at all MDBs; undertaking studies in the harmonization of PRSP reporting; and agency performance methodology. The 2005 Budget reflects reinforced linkages between budget allocations and strategic activities. The Bank, in collaboration with the World Bank and OECD, hosted a regional workshop on harmonization and results-based management in Dar-es-Salaam, Tanzania, which took place in the second week of November 2004. In relation to this, a study launched in July 2004 examined how partner countries and donors reached agreement on the use of a national PRSP monitoring/reporting system.

**3.3.5 Harmonization Action Plan:** As the focus on implementation increases, the Bank is intensifying its involvement in the harmonization agenda to reduce compliance costs for borrowers and consolidate its strategic alliances and partnerships in the quest for operational quality, while maintaining the Bank's important policies, fiduciary controls, and standards. The regional workshop organised by the Bank in Dar-es-salaam, 8-10 November 2004, was in preparation for the High Level Forum 2, which will be held in Paris in March 2005. The Bank's harmonization activities at the country level focus on aligning its procedures and processes and those of other donors with national systems.

**3.3.6** The Bank continues to coordinate its harmonization activities with other donors and within RMCs under the framework of the "good practice principles" developed by the OECD and the MDBs. In accordance with the recommendations of the Rome High-Level Forum, the Bank is developing a Harmonization Action Plan that includes operational activities aimed at mainstreaming the international harmonization agenda

both within the Bank Group and in RMCs, as well as the development of appropriate indicators for monitoring and evaluation of the implementation of the Rome Agenda. The Harmonization Action Plan will be based on inputs from the four working groups on procurement and financial management; environment and poverty reduction; and governance and results based management. The Harmonization Action Plan will be prepared by December 2004 while harmonization activities in streamlining operational policies and guidelines, financial management, procurement and environment agenda some of which are on-going will continue under the collaborative arrangements with the other partners.

### **3.4 Priority Area 4: Strengthening the Research Function, Communications Strategy, and Comparative Advantage**

3.4.1 The Bank is the least research-oriented of all the MDBs. The Independent Evaluation noted that its poor showing in the research area diminishes its intellectual authority and ability to influence positive change in terms of evidence-based policy advocacy. The Bank cannot continue to rely on the World Bank, IMF and outside research outputs as this weakens the legitimacy and authority of the Bank as an African development institution. To play a more effective role in research, the following actions will be taken: establishment of the office of the Chief Economist to coordinate the Bank's research work; commitment of substantial budgetary resources to the research function within the Bank; an expanded program of recruitment of high quality research staff; dedicating greater resources to strategically oriented research on issues in Africa's development, especially on themes that relate to the practical operations of the Bank and its mission; encouraging collaboration with external and African research institutions; and making conscious efforts to strategically reposition the Bank as a world-class knowledge centre that is second to none in relation to issues of African development. Resource requirement to strengthen the research function is one of the issues the New Accord to be presented to the Board will address.

3.4.2 Areas of Research Focus: The Bank will submit to the Board of Directors in January 2005 its expanded program of applied research. The program will be directly relevant to the Bank's operations and will focus on themes such as: public sector management; agriculture and food security; water and sanitation, financial sector development; and international trade and regional integration. In addition, the research work will focus on an analysis of progress at the macroeconomic level to assess the factors behind the performance of African economies and their prospects and to get a better understanding of their dynamics. To avoid duplication of efforts, the Bank will strengthen its relations with other research institutions -- and in particular with those that it supports -- as well as the Bretton Woods institutions and, to the extent possible, it will establish collaborative research programs. The International Comparison Program (ICP) that the Bank is implementing with other partner institutions is expected to generate more reliable data for the Bank's research. Increased research output and dissemination inside and outside the Bank will not only contribute to improved understanding of the development issues in Africa but will also assist the Bank to have intellectual leadership in issues pertaining to African economies. The main thrust of the research activities will be to make conscious efforts to strategically reposition the Bank as a world-class knowledge centre on issues in African development.

**3.4.3 Communications Strategy:** The Bank Group's Communication Strategy is currently under preparation and will be ready by end of 2004. The main objective of the Communication Strategy will be to promote the Bank Group's activities and provide more visibility of its operations as well as improve its image in the regional and non-regional member countries. The overarching objectives of the strategy is to secure greater public knowledge and understanding of the Bank's work and activities, deepen public recognition of its role in the development of African countries and as the continent's premier development finance institution and, more importantly, to enable the Bank gain recognition as a base of knowledge on African economic and social development. Through the Communications Strategy and the Bank Group Disclosure of Information Policy, the Bank will enhance the quality of project implementation by engaging the beneficiaries of its operations and the general public. The Disclosure of Information Policy will be updated regularly to ensure it is following best practice and serving as a transparency leader across the International Financial Institutions. In particular, the Bank is monitoring developments in sister institutions with regard to the disclosure of Country Performance Assessment ratings (quintiles). The Board approved the disclosure of the summaries of Board decisions in November 2004 with a view to harmonize its procedures for disclosure with those of sister institutions where the disclosure of the summaries of Board decisions has already been adopted or is being considered. A critical component of the communications strategy will be a significantly improved website regarding both content and accessibility. With regards to issues of corruption and fraud, Management will present to the Board a proposal for the establishment of an Ant-Corruption and Fraud Investigation Unit before the end of December, 2004. A specific recommendation has been made in the proposal on the disclosure of allegations of fraud and corruption for the Board's decision.

**3.4.4 Bank's Comparative Advantage:** The Bank applies selectivity in the deployment of resources across and within countries through the Performance Based Allocation System and within CSPs, which are aligned to PRSPs. The selectivity process is linked to the Bank's comparative advantage, in terms of sectors or activities for support, as these are the ones in which the Bank is considered to have achieved satisfactory or superior results compared to other actors in the same sectors. On the other end, lead roles have been assigned to the Bank in such areas as governance, regional integration and water based on the fact that the institution is located in Africa and has a relatively good knowledge of African issues in these areas. There is need to review the issue of comparative advantage in relation to the activities of other donors and a consideration of where the Bank has and will be able to build expertise and capacity. The Bank's comparative advantage should be anchored on the prioritisation of the Bank's various policies, on the outcomes of its research activities, on priorities as elucidated in ESWs and country PRSPs, as well as in areas where the Bank has achieved best practices, which have been sustainable overtime. Such a review should be completed by December 2005.

## **4. Monitoring and Evaluation of Progress**

**4.1** The Operations Complexes and other relevant supportive complexes will prepare quarterly progress reports on the implementation of the Action Plan in the areas of their responsibility in relation to the key indicators for measuring progress as outlined in the Action Plan Matrix, Annex 1. It should however be noted that not all activities will have



quantifiable indicators. A Monitoring Committee, chaired by POPR will provide Management with a progress report bi-annually for the information of the Board. A Mid-Term Review of the implementation plan, which will be based on the listed Key Indicators for Evaluation of the implementation progress shown in Annex 2, will focus on determining to what extent the key benchmarks and outcomes have been realised. It will also identify the additional actions (if any) that may need to be taken to keep the Action Plan on track. The key benchmarks will include the following:

- Enhanced country dialogue and programming through results-based CSPs.
- Strengthened project design, particularly through results-based logframe.
- Enhanced project implementation arising from the reduction of (i) loan signature from more than one year to less than six months; (ii) loan effectiveness from more than 18 months to between 6 and 12 months; (iii) procurement time to between 8 and 10 months from the current procurement time of between 13 to 20 months.
- Loan effectiveness for approved loans during 2000 will be achieved by December 2004, while for those approved during 2003 loan effectiveness will be achieved by mid-2005.
- Supervision missions will become more focused on results, outcomes and development effectiveness, while MTRs will be used to refocus project implementation in cases where there are slippages.
- The backlog of PCRs and PPERs will be progressively cleared and lessons of experience and best practices will be systematically incorporated into the design and implementation of new operations.
- RBM will become integrated in the operational systems of the Bank.
- Increased disbursement rate.
- Level of non-performing operations will be reduced to less than 10 percent of the portfolio.

4.2 In the long term, progress in the implementation of the Action Plan will be assessed through the mandatory Project Completion Reports (PCR) prepared by the Operations Complexes and the Post Performance Evaluation Reports prepared by the Operations Evaluation Department.

## **5. Conclusion**

Effective implementation processes and procedures are important instruments in achieving development effectiveness and desirable impacts. This Action Plan will be implemented to realize the expected improvements in portfolio management. Project and programme implementation will be enhanced through improved staffing and skills mix in particular in the Operations Complexes; a reduction in the time taken from approval to loan effectiveness from more than 24 months to below 6 months; procurement time to between 8-10 months from the present 13-20 months; further improvements in quality-at-entry such as better alignment of CSPs to PRSPs and PRSPs to Millennium Development Goals (MDGs); better mainstreaming of cross-cutting issues; more focussed supervision; better enforcement of project audits;

strengthened support for institutional capacity building at the country level for planning and project implementation; and the progressive implementation of results-based management systems. The Bank is in a strong position to achieve a high degree of quality both in the implementation of on-going operations and in the design and implementation of new operations, as it reorients its country focus, deepens selectivity and increases the number of field offices. With an increasing staffing and improved skills mix, and strengthened capacity at the country level, the Bank will be in a position to manage a significant replenishment of the Fund. A Monitoring Committee that has been established to follow the implementation of the Action Plan will provide Management and the Board with timely information on progress being made and about any additional actions needed to keep the Action Plan on track.

### ANNEX 1 - ACTION PLAN MATRIX

Priority	Issues/ Objective	Actions to be taken	Lead Department	Support Department	Target Indicator	Indicator description / Means of Verification	Target Date	Comments
1	<b>ENHANCEMENT OF THE ORGANIZATIONAL CAPACITY AND RESPONSIVENESS</b>							
1	<b>1.1 IMPROVING CAPACITY, RESPONSIVENESS, AND PORTFOLIO MANAGEMENT</b>							
1	Increase staffing and improve skills mix	Recruit staff to fill immediately vacancies, particularly in Country and Sector Departments	CHRM	All Complexes	03 staff recruited, out of whom 50% are in Operations	CHRM to make a recruitment report for the year 2004; re: 100 filled positions projected for 2004 out of which 40 were already filled by June 2004	December 2004	82 staff on board by end-October, 2004
1		Undertake a needs assessment to determine the number and skills mix of Project staff assistants needed to assist TMs in undertaking routine work associated with project management, e.g.. Entry of SAP data; preparation of routine correspondence, briefs, standard disbursement and procurement processing, etc.	CHRM	All Operations Departments	Project staff assistants recruited	"Report 2005": Number of project staff assistants to be determined through needs assessment.	June, 2005	
1	Building Country Capacity	Assess RMC capacity in project/program management and Bank procedures in procurement and disbursements during appraisal and portfolio reviews	Country and Operations Departments	PDRE	Report prepared	"Report 2005" Consultant's report that will assess RMC capacity building needs.	December 2005	Institutional capacity building is a component of most projects financed under ADF
1	Building Country Capacity for Borrowing agencies	Identify training needs of RMCs and their PIUs	PDRE	Country and Operations Departments	1 training program	"Report" PDRE will present a 3 - 5 year training program as part of the President's "New Accord" with the Board.	On-going	
1		Provide training to Bank clients in PIU and program management through PDRE and JAI activities.	PDRE	Country and Operations Departments	14 countries @ 35 participants per country	Number of RMC staff trained in procurement / disbursement / management programs	Annually	PDRE trains PIUs as part of its annual programmes

1	Increased Field Presence	Continue progressively to open Field Offices in co-ordination with the implementation of the decentralization plan.	Country and Sector Departments	Country and Sector Departments and CIMM.3	16 field offices opened	Opened field offices are operational	16 field offices opened	Accelerated Decentralization Plan approved by the Board
1	Coordination with donors at the country level	Build and enhance coordination and partnerships as an important principle in the quest of operational quality	Country and Sector Departments	PPLB/POPR	Annual Reports on Status of Coordination	"Report" ONVP/OCVP will indicate the number and type of coordination activities created during the year.	On-going	Field Offices and Missions coordinate activities with other donors
	<b>1.2 QUALITY-AT-ENTRY</b>							
1	Improve Review Process and Compliance Function	Reinforce the functioning of the Country & Thematic Teams, revise their Terms of Reference and empower the teams, especially through stronger leadership	Country and Sector Departments	POPR	Revised TOR	Revised TOR that also indicates authority and responsibility of teams	December 2004	TOR under preparation; country teams being reorganized
1		Revise the review procedures and compliance mechanisms to reinvigorate the process.	POPR	Country and Sector Departments, FFCO; GECL, PSDU; PPRU	Revised Review Process adopted.	Revised Review Process and Compliance procedures; approved by Senior Management; circulated to Operations Staff.	August 2004	Revised Review Process document launched
1		Disseminate review procedures and sensitize staff on the revised review process and implications for Operations Quality	POPR	Country and Sector Departments	Operations staff apply the review procedures	"Report" to document evidence that review procedures were circulated to staff; and 1-2 meetings held with support Departments & Operations Complexes to familiarize staff with revised Review process.	June 2005	Arrangements for sensitization workshops being finalized
1	Project/Program Design	Undertake Quality Assurance measures, including use of Operations Manual checklists, Quality-at-entry questions; and PSDU checklists	PRVP / POPR	Country and Sector Departments; CHRM	5 checklists regularly used	"Report" to present evidence indicating that checklists are in use by POPR and support unit staff	June 2005	Checklists are being developed.
1		Systematically incorporate Lessons Learnt in the design and implementation of Operations	Country and Sector Departments	POPR		"Report": to prepare a Progress report by June 2005 that assesses quality of 'lessons learnt' sections used in Appraisal reports	June 2005	POPR to prepare lessons report quarterly.

1		Strengthen mission composition with cross-cutting issue experts at all stages of the project cycle	Country and Sector Departments	PSDU	At least 50 missions w/ enhanced skills mix	"Report": ONVP, OCVF and PSDU to document the number of operations-related missions that included gender and other cross-cutting experts during first half of 2005, and their role in the missions.	June 2005	Consultants are being used when there are inadequate skills mix in mission teams
1	Project/Program Design	Ensure that logframes have results-oriented (impact) indicators; clearly state risks; indicate baseline data; and deepen the analysis of risk and sustainability assessments during project preparation.	Country and Sector Departments	OPEV / POPR/ PSDU	All appraisal reports will have results-oriented logframes	QEA report will be prepared in 1st/2nd quarter 2005 and will examine, inter alia, the quality of indicators in logframes	December 2005	Appraisal reports will be reviewed to ensure their results-oriented impact indicators are present. Staff will be given training in 2005 for this.
1		Organize logframe training for all Operations staff	POPR/ CHRM	Operations Complexes	250 trained	All Task Managers will be trained in logframes by June 2005.	June 2005	On-line logframe course identified and will be made available to staff by December 2004. Additional logframe training is being planned.
1		Reinforce M&E systems that include a project results assessment framework.	Country and Sector Departments	OPEV / PDRE	Appraisal reports reflect Lessons Learnt from M&E	QEA report, undertaken in 1st quarter 2005 will examine, inter alia, the quality of M&E design in appraisal reports;	December 2005	Training will be based on findings from QEA report.
1		Streamline (simpler and fewer) loan conditionalities and ensure that most conditions are met prior to Board presentation.	Country and Sector Departments	GECL	All loan appraisal documents with streamlined conditions	QEA Report undertaken during first and second quarter 2005 will examine implementation of new approaches.	For all loans appraised after January 1, 2005	A report on review on conditionalities to be prepared in April 2005
	<b>1.3 QUALITY-AT-IMPLEMENTATION</b>							
1	Supervision Missions	Enhance the quality of supervisions by improving the skills mix	Country & Sector Departments	PSDU, FFCO, PPRU, POPR	At least 50 missions with enhanced skills mix	OCVP/ONVP will prepare report to indicate skills mix of Supervision missions.	June 2005	On-course
1		Organize a Quality Supervision Assessment exercise to systematically identify supervision issues.	POPR	Operations Complexes	Report produced.	Exercise to be implemented in March 2005 with report coming out in June.	June 2005	On-course

1		Develop a Results Oriented Supervision Report Format to reflect focus on outcomes, risk mitigation, and addressing immediate issues, such as slow disbursements, audits, procurement, or other urgent items.	POPR	Country and Sector Departments	1 new format / 1 updated SAP module (PS). Number of problems and projects dismissing	2 phases: New format for written report; New format reflected in revision given to SAP system (2006).	March 2005	On-course, format likely to undergo periodic revisions as Bank adapts to new software.
1	Country Portfolio Improvement Plans (CPIPs)	Require annual CPIP for countries with elevated levels of projects-at-risk.	Sector and Country Departments	POPR	Number of CPIP Plans identified in APPR	Countries needing CPIPs will be identified in December 2004. CPIP reports will be prepared by February 2005.	December 2004	19 countries have so far been identified
1	Systematic Clean-up of Portfolio	Examine the Bank's portfolio and on a case by case basis, cancel operations that are unlikely to be implemented, achieve their development objectives, have multiple extensions of closing dates, or are aging operations, etc.	FFCO & Country and Sector Departments	POPR	FFCO Monthly report	ONVP/OCVP will summarize and quantify actions taken to cancel or close operations by each Department and report on such actions every 6 months.	December 2004	Cancellations have started. ADB: UA 2,895,580.01; 27 loans cancelled  ADF UA 122,616,981.47; 163 loans cancelled
1	Reduce procurement time in Bank operations	Increase the utilization of the "post review" provisions in the current Rules to expedite procurement by Borrowers for new operations	Country and Sector Departments	PPRU	All operations will use Post review provisions	PPRU to produce a report indicating number of "Post-review provisions for each month" for the 2004 calendar year and thereafter bi-annually	First report in March 2005	A start has been made in the use of post review
1		Use MTRs, supervision reports, and Country Procurement Assessments to review procurement procedures, and to make and implement recommendations to improve procurement processes.	Country and Sector Departments	PPRU	Bi-annual report	"Report": PPRU and Operations Complex will prepare a bi-annual report on how many supervision reports, MTRs and CPARs make recommendations to improve procurement in 2004.	January 05; July 05	Actions to harmonize procurement procedures with other donors are on-going
1	Expedite procurement processes in Bank operations	Sensitize borrowers to recruit more procurement experts at the country level.	Country and Sector Departments	PPRU	At least ten countries sensitized.	PPRU and Operations Complex to report number of agencies per country that have been sensitized.	January 05; July 05	Will contribute to reducing procurement time
1		Expand Procurement training for Task Managers to include both external and internal training and accreditation of Procurement Staff.	CHRM / PPRU / PDRE	Country and Sector Departments	100 staff trained	Number of Staff to be trained in procurement in 2004; and in 2005. Will report every six months	January 05; July 05	Managers and some staff have already attended procurement refresher courses

1		Recruit Procurement experts into operations departments.	Sector Departments/C HRM	PPRU	5 experts recruited	"Report" CHRM will report on number of procurement experts placed in Operations Complexes.	March 2005	Positions have been advertised
1	Expedite procurement processes in Bank operations	Bring procurement approvals closer to Borrowers, by empowering Field Offices (FO) to provide approval, in selected procurement requests, especially at the initial stages in the procurement process.	FO/CHRM/ Operations Complexes	PPRU	25 procurement approvals done at FO level	PPRU and Field Offices will prepare a statement that describes the contributions of Field Offices in procurement administration.	June 2005	Delegation Authority Matrix and Field office manual provides some responsibilities to field office staff in procurement issues
1	Accelerating Disbursements	Streamline the processing of disbursements from 15 to 10 days by (i) immediately acknowledging receipt of applications and communicating with PIUs; (ii) communicating confirmed disbursements; (iii) allowing access of the borrowers to disbursement information via the internet, using a security code; (iv) analyzing complaints received to identify best practices ; and (v) increasing the utilization of E-mail services.	FFCO	Country and Sector Departments, and RMCs	10 day processing target achieved.	Document: FFCO will report quarterly on progress made in reducing the processing from 15 to 10 days over the next 10 months.	December 2004	Supervision mission reports will provide more information on disbursements status
1		Update the Disbursement Manual in view of the current changes in the Bank and client needs	FFCO		1 Updated Disbursement Manual	1 Updated Disbursement Manual	March 2005	
1		Train Bank and executing agency staff in disbursement administration	FFCO	OCVP / ONVP	50 staff / 100 RMC officials	"Report": will indicate if target was achieved.	June 2005	
1	Accelerating Disbursements	(i) Organize Disbursement training for PIU/EA's externally and internally for all Project and Task Managers (ii) Ensure that the Operations complex includes capacity building at appraisal stage (iii) encourage country offices to assist in training	FFCO	Operations Complexes & PDRE	150 staff in 15 countries trained.	150 PIU / EA agents from 15 countries trained yearly.	December 2005	Some training already done as part of an on-going programme

1		Delegate disbursement authority to Field offices for selected items; and pre-screen applications prior to submitting them to headquarters	FFCO	Field Offices	Time taken to receive the resources after disbursement applications is shortened.	Document: FFCO will report quarterly on pre-screening at Field Offices; PPRU will report quarterly on use of disbursement authority at Field Offices by end 2004.	June 2005	Delegation of Authority and field manual gives field office staff some responsibilities in disbursement processing
1	Project Audits	Update: ensure that all borrowers have submitted outstanding audits by June 2005	Country and Sector Departments	AUDT	350 operations brought up to date on Audit status	"Report" ONVP/OCVP will prepare a summary update in June 2005.	June 2005	Review is already underway.
1	Sector Portfolio Improvement Plans (SPIPs)	Develop Sector Portfolio Improvement Plan format that will identify in-country weaknesses and formulate results-oriented action plans	OCAR, ONAR, ONIN, OCIN, ONSD, OCSD	POPR	A SPIP format	SPIP format to be produced by March 2005	March 2005	
1		Develop SPIP document for 2 sectors covering multiple countries	OCAR, ONAR, ONIN, OCIN	POPR	2 SPIP reports		September 2005	
1	Annual Portfolio Performance Review	Ensure timely entry of Supervision data into SAP by TMs for the preceding year and communicate the list of closed operations by no later than 31 January of each new year	Country and Sector Departments	OPVP / OCVP / POPR	Approx. 400 operations have projects rating entered.	"Report" ONVP and OCVP will indicate status of 2004 project ratings for on-going Operations by end-December 2004, and provide all final ratings for FY2004 by January 2005.	On-going	250 project supervision entries made January 1 - December 2004
<b>2</b>	<b>STRENGTHENING QUALITY OF BANK OPERATIONS WITHIN RESULTS-BASED MANAGEMENT FRAMEWORK</b>							
	<b>2.1 QUALITY-AT-ENTRY</b>							
2	Country Programming	Enhance the alignment of CSPs to PRSPs	Country Departments	Sector Departments / POPR, PSDU	10 CSPs	CSPs will clearly describe participatory processes	December 2005	A number of CSPs are already aligned to PRSPs
2		Enhance Institutional Capacity at national level for the preparation of PRSPs	Country Departments	Sector Departments, POPR	10 countries received IS to prepare PRSPs	Country Departments to report on number and type of assistance given.	Mid-Term Review (2006)	\$ 1.5 million Dutch grant is being used to support RMCs for PRSP planning seminars.



2		Provide Support to RMCs to further enhance the linkage of national budgets to PRSP priorities (national budgets should reflect PRSP priorities)	Country Departments	Sector Departments, POPR	10 countries receive assistance / missions for linking budget to PRSP per year	"Report" ONVP / OCVP will provide a summary that describes Bank interventions in RMC PRSP-budget linkages; and related Technical assistance, non-lending services, and IS	Mid-Term Review (2006)	Guidelines needed to assist staff in linking PRSPs to RMC budgets.
2		Intensify ESW preparation to guide CSP so as to provide strong underpinnings for all projects and programs, to strengthen sustainability and impact on country operations and policy dialogue	Country and Sector Departments	POPR	25 ESWs carried out.	25 ESWs will be carried out and approved by 2006	December 2006	Recruitment and training of Economists in progress
2	Project/Program Design	Ensure that more training is provided to Staff in use and application of Guidelines in Project Design and Financial Management / Analysis	POPR / CHRM	Country and Sector Departments	150 staff trained	150 staff participate in training on how apply guidelines	Mid-Term Review (2006)	Review process monitors the extension to which guidelines are being implemented
2		Provide training in participatory approaches, including field training and dissemination of Best Practices	CHRM & PSDU	Country and Sector Departments	150 staff	TM / Operations staff will be trained in Financial / Project Appraisal Guidelines	December 2005	Preparation of training materials in progress
2		Conduct an assessment to identify the countries to be targeted for M&E training	OPEV / POPR / PDRE	Country and Sector Departments	20 countries	M&E capacity assessments for project level / PRSP level monitoring will be completed by December 2004.	December 2005	
2		Measures to Evaluate Quality-at-entry (QEA): undertake exercise	POPR	Operations Complexes	1 report	QEA process will take place in 1st quarter 2005; report will be published by June 2005.	March 2005	
2		Quality Assurance Workshop: Start pilot course by February 2005	POPR / PSDU / CHRM	Operations Complexes	Workshop held	"Report" Report on outcomes of workshop will be prepared	March 2005	TOR for consultant prepared.
2	Fielding of Launching Missions	Strengthen launching missions for all newly approved projects in skills mix and duration.	Country and Sector Departments	GECL, PPRU, FFCO, PSDU, POPR	All launching mission to have enhanced skills mix	ONVP/OCVP will prepare a summary report for year-end 2004 indicating progress in the skills mix used in each launching mission for the current year. Thereafter, the report will be produced quarterly.	December 2005	Summary report on skills-mix of launching missions will be prepared annually

	<b>2.2 QUALITY-AT-IMPLEMENTATION</b>							
2	Annual Implementation Report	Produce an annual Implementation Report that will give a summary status of each Operation (age, time to effectiveness, % achieved; % disbursed; status of audits; supervision rating; outstanding issues, etc.).	POPR	Country and Sector Departments / CIMM	Implementation Report produced	Report finalized in December each year.	February 2005	
2	Mid-Term Reviews (MTRs)	Ensure that Mid-term reviews are undertaken for all projects and programs when due.	Country and Sector Departments	PSDU, FFCO, PPRU	100% scheduled MTRs achieved.	ONVP / OCVP will monitor and keep track of all MTRs undertaken for 2004; report will include setting of MTR targets for 2005.	February 2005	Focus of MTRs will be on development outcomes and impacts
2		Assess audit capacities of countries.	AUDT	Country and Sector Departments	4 CFAAs produced.	AUDT assesses 4 countries by December 2004.	December 2004	
2		Sensitize staff on how to use CFAAs optimally	AUDT	Country and Sector Departments / POPR	All Operations Departments	TMs receive guidelines & attend workshop on interpreting Audits	December 2004	
2		Monitoring of Audit recommendations	Country and Sector Departments	AUDT	1 Annual Report	Annual Report on Implementation of Audit Recommendations will be initiated.	March 2005 (first report)	
2		Program SAP to issue warnings to staff and managers when audits are overdue	CIMM	Country and Sector Departments	3 types of workflow to generate emails	3 types of workflow e-mails will be generated for overdue audits, project closing dates and overdue supervision ratings	June 2005	
2		Ensure that staff follow-up the implementation of Audit recommendations. Prepare an annual report on how implementation of audit recommendations was carried out.	Country and Sector Departments	AUDT / POPR	Audits for 50 operations in SAP	Audit follow-up data will be recorded in the SAP project system for at least 50 operations.	On-going	

	<b>2.3 POST-EVALUATION</b>							
2	Clear Backlog and Preparation of PCRs	Undertake the preparation and production of PCR reports	Operations Complexes	OPEV	30 PCRs completed and backlog cleared by December, 2005	30 PCRs will be completed in 2004. OPEV will indicate which sectors and countries need coverage. Backlog cleared by December 2005.	December 2004; December, 2005	
2	Lessons Learned	Improve the analytical quality of the completion reports and the relevance of the lessons learned and recommendations for the design and implementation of future operations in the context of RBM.	Operations Complexes	POPR	Number of PRSP, SWAP, and Budget support related meetings attended	POPR to assess quality of PCR submissions in its annual or bi-annual report on PCRs. In the next report, POPR will compare the analysis and quality of lessons learned from PCRs undertaken in 2004 with prior years.	June 2005	A programme on preparation of a report on lessons learnt will be worked out with operations
<b><u>3</u></b>	<b>DEEPENING DEVELOPMENT EFFECTIVENESS IN COLLABORATION WITH OTHER DEVELOPMENT PARTNERS</b>							
	<b>3.1 RESULTS-BASED MANAGEMENT</b>							
3	Building Capacity in Member Countries	Build Capacity in results-based management of public administration, particularly for PRSPs and sectoral analysis; and includes a strong monitoring & evaluation component.	PDRE	Operations Complexes & PDRE/POPR	1 Update on ICP Implementation	"Report" PDRE will submit an update report on the ICP 1 year after approval.	December 2005	ICP to be reviewed by Board in September 2004
2	Becoming a Results-Based Institution	Finalize Blueprint + RBM Implementation Plan	POPR	Operations Complexes	1 Blueprint report	"Blueprint" report delivered by 4th quarter 2004	October 2004	
2	Becoming a Results-Based Institution	Rollout Balanced Scorecard	POPR with Operations Complexes		1 Scorecard functioning	Present Balanced Score Card to staff	December 2004	
2		Train staff in RBM methodology	POPR with Operations Complexes		100 Bank staff	Introduced to basic concepts of RBM	September 2005	
2		Review/Develop staff incentives to encourage staff in the direction of result-based monitoring and measurement.	CHRM	POPR	Revised incentives criteria	Introduce revised performance evaluation system to enhance results measurement	June 2005	

2	Becoming a Results-Based Institution	Institute risk mitigation and learning systems	POPR with Operations Complexes		All operations staff receive Risk mitigation guidelines	Additional Risk mitigation and learning systems distributed to staff by December 2004	March 2005	
3		Develop and Launch a Results Based-CSP format	POPR	Country Departments / OPEV	New format applied for CSPs under ADF-X.	"Report": Indicate that format and Guidelines will be issued in November 2004, ready for use in January 2005. At least 30 countries have RB-CSPs developed.	January 2005	Draft prepared.
3		Prepare guidelines to evaluate the completion of RB-CSPs	OPEV	POPR	1 set of RB CSP Evaluation guidelines	"Report" OPEV will develop format and guidelines for evaluation by December 2004. Note that format will not be applied until after the next set of CSPs fall due (2005 + 3 years)	March 2005	Preparations will begin once RB-CSP format finalized; currently finalizing study on previous CSP and CPPRs.
3		Prepare the Bank's IT system to make it RBM - compliant	CIMM	POPR / Operations	Quarterly report	Report on Implementation of RBM Implementation Plan on quarterly basis.	June 2005	IT systems report due in Dec 2004
3		Reinforce linkages between budget allocations and strategic activities	PPLB	Bank Complexes	Budgetary procedures for 2004/5 linked to priorities	2005 Budget document	December 2004	Already incorporated into the 2005 budgeting process. Further refinements will come.
3		Continue participation in MDB Working Group on Results	POPR	PPLB	1 update report	"Report" POPR will provide a brief report on the Bank's activities in the MDB Working Group and OECD/DAC Joint Evaluation	On-going	Participation has continued. The Bank is now preparing for Oct. 26 OECD JV meeting in Paris, and November 9-11, 2004 workshop in TANZANIA.

3	3.2 HARMONIZATION							
3	Implementation of Rome Agenda							
3	Support country-led efforts to streamline donor procedures and practices.	Organize Regional Workshops to disseminate Harmonization agenda; facilitate and encourage cross-fertilization of country experiences.	POPR	PPRU / OPEV / PSDU	Regional Workshops held.	Reports on the Regional workshops prepared b POPR	November 2004	The Bank has, in close collaboration with the World Bank, organized two regional workshops in the lead to and after the Rome High Level Forum (Addis, Jan 2003 and Tunis, August 2003). The Bank will organize in Nov 2004 another regional workshop in preparation for the High Level to take place in Paris, Feb 2005 to take stock of the in-country implementation of the Rome Declaration.
3		Participate in pilot country harmonization activities	Country Departments	PSDU / PPRU / POPR	Number of countries under pilot harmonization activities	Reports prepared by POPR	On-going	Bank continues to be participate in DAC Working Party on Aid Effectiveness and is actively participating in in-country led processes on harmonization in particular in pilot countries such as Ethiopia, Tanzania, Uganda, and Senegal where the Bank has field office.
3	Building Bank capacity in Harmonization	Organize Bank sensitization seminars on the Harmonization agenda	POPR	PSDU & PPRU	Sensitization seminars held.	Number of staff who participate in sensitization seminars.	On-going	In 2003, the Bank organized a series of briefings/dissemination seminars for the Board, Management
3		Revision of procedures for procurement	PPRU	Country and Sector Departments	Workshops held.	Revised procedures operationalized,	On-going	The Bank is continuing work on unfinished institutional harmonization issues within the MDB working groups on Harmonization.
3		Revise of procedures for finance	POPR / FFCO	Sector Departments				
3		Revise of procedures for evaluation.	OPEV	POPR/Sector Departments	Project staff assistants recruited			

3		Revise of procedures for environmental assessments	PSDU		Revised set of procedures on Environmental & Social Impacts Assessment	Revised Review Process and Compliance procedures; approved by Senior Mgmt; circulated to Operations Staff.	February 2004	PSDU has led in establishing the Common Assessment Framework (CAF) adopted by all the MDBs in June 2004. Bank's revised procedures incorporate the revised procedures. The final version of CAF will be presented at the 3rd Regional Harmonization workshop in Tanzania in Nov '04 and then at the Paris HLF in March 2005.
3	Harmonization - Financial Management	Training staff in the use of Financial Reporting and Assessment guidelines	POPR	CHRM	Staff trained	Number of staff trained.	March 2005	Training materials are being prepared
3		Conduct joint ADB-World Bank CFAAs	POPR	Country and Sector Departments / WB	As prepared	Number of CFFAs prepared	On-going	The Bank is already engaged with the World Bank.
3		Pilot harmonization of financial practices in five countries.	POPR		Financial practices harmonized	Number of countries covered.	December 2005	The work on Ethiopia has commenced.
3	Harmonization - Procurement	Develop Master Document for Procurement of Design & Build Turnkey Contracts	PPRU	MDB Working Group on Procurement	Documents prepared.	Two documents completed	On-going	Master Document is nearing completion for adoption by MDBs.
3		Conduct Joint Country Procurement Assessments and produce Reports - Burkina, Chad, Kenya, Lesotho, Malawi, Niger, Swaziland	PPRU	World Bank	Reports prepared	Number of CPARs prepared	December 2005	The Bank already engaged with the World Bank
3		Establish regional-level (COMESA, UEMOA, ECOWAS) reforms to facilitate the implementation of the harmonization of procurement systems at partner country level. The output will include harmonized National Competitive Bidding Documents (NCB).	PPRU	Country and Sector Departments	Regional directives in place	Number of Regional directives	Ongoing	The Bank is already engaged with COMESA and UEMOA

3	Harmonization of Environment Agenda	Sensitization of staff regarding Environmental and Social Assessment Guidelines (ESAG) & Strategic Impacts Assessment (SIA) Directives.	PSDU	CHRM	No. of training sessions held for the Bank staff	No. of Bank Staff trained	On-going	3 sessions were organised in 2004 1st Q attended by over 50 staff. A 3-day course is planned for Nov 2004.
3		Conduct capacity building for RMCs on Bank-wide procedures including modules on Environment, Gender, Poverty, Population, and Participation.	PSDU	PDRE/ Country Departments	No. of RMC Training Session	No. of RMC officials trained	On-going	PSDU participated in country workshop in Gambia Feb 2004. Additional countries are planned for 2005 after securing bilateral funds from Japan' RMC sessions may be held jointly with the World Bank.

4	EXPANDING RESEARCH CAPACITY							
4	Expand Research Capacity	Appoint Chief Economist	CHRM	PRST / PDRE	1	Chief Economist identified	December 2005	Research Action Plan under Preparation
4		Recruit Researchers/Economists	CHRM	PDRE	5		December 2005	Recruitment has started
4	Expand Research Capacity	Develop Research Program/Plan	PDRE	PPLB / Country Departments	1 report	5-year research program, including how to leverage lessons learned from Ops. and sister institutions, and to identify comparative advantage	February, 2005	Program being developed.
4	Research Comparative Advantage	Identify Bank's comparative advantages	PDRE	POPR / Operations Complexes	1 report	Clearly identifies methodology and Bank's comparative advantages in lending and non-lending activities	December 2005	
4	Communications Strategy	Develop a Comprehensive Bank Communications Strategy	SEGL	POPR, GECL, CIMM, Operations Complexes	1 Communications Strategy Report	Communicates to all stakeholders the Bank's programs		Consultant undertaking assignment

	Follow-up of this Implementation Matrix	Follow-up this implementation matrix through the establishment of a monitoring committee.	POPR, Operations Complexes	ONVP / OCVP	1 Update "Report"	The monitoring committee will present a comprehensive report of the first phase of this Action Plan, based on actions accomplished through December 2004.	February 2005	
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## ANNEX 2 – Key Indicators for Evaluation of Progress of the Implementation Action Plan

Issues/ Objective	Actions to be taken	Lead Department	Support Department	Target Indicator	Indicator description / Comments	Target Date
MTR report	Mid-Term Review of Implementation Action Plan	POPR	All	1 Report	Summarizes all actions taken in Implementation Action Plan	MTR
Staff Recruitment	Filling Vacancies	CHRM	All Departments	Vacancy rate at less than 5% of approved positions		MTR
Staff training	Staff provided with training opportunities	CHRM	All Departments	All staff average at least 5 work days / training / per year	CHRM to develop summary report of annual staff training	MTR
RB-CSPs	Develop RB-CSPs	Country Departments	Sector Departments	At least 30 RB-CSPs developed	Results-based Country Strategy papers	MTR
ESWs	Economic-Sector Work undertaken	Country Departments	Sector Departments	15 ESWs/ year	15 ESW reports produced per year, eventually growing to 20-25	MTR / LT
Quality-at-Entry Assessment	Measures progress made in improving quality-at-entry: sound logframes; M&E systems; learning feedback; risk mitigation plans	POPR	Country and Sector Departments	1 Report		MTR / LT
Quality--at-Supervision Assessment	Measures progress made in improving quality-of supervision: refocus on results and outcomes ; improvements in disbursement, procurement and adherence to implementation schedule	POPR	Country and Sector Departments	1 Report		MTR
Project supervision	Project supervision reflect good skills mix	Country and Sector Departments	FFCO / PPRU	1' Report	Indicates skills mix by type of mission	MTR/LT
	Project supervision meets frequency target	Country and Sector Departments	FFCO / PPRU	1.5 visit / year per on-going Operation		

Issues/ Objective	Actions to be taken	Lead Department	Support Department	Target Indicator	Indicator description / Comments	Target Date
Annual Portfolio Performance Review	Continue to use APPR data	POPR	Country and Sector Departments	PAR rates < 25% ; PP < 10%	Project-at-risk rates to decline to 25% ; Problem project rates to be less than 10%	MTR/LT
Systematic Clean-up of the Portfolio	Aging projects	Country and Sector Departments		From 20% to less than 10% of on-going portfolio	Information available from APPR reports	MTR
	Persistent problem projects (problematic > 2 years in a row)	Country and Sector Departments		Less than 5 on-going	Information available from APPR reports	MTR
	Closed projects with outstanding balances	Country and Sector Departments		None	Information available from SAP	MTR
	Projects eligible for cancellation (not signed after 180 days; no disbursements in 2 years or more)	Country and Sector Departments		fewer than 15	Information available from SAP	MTR
Disbursement	Application processing time is reduced	Country and Sector Departments	FFCO	From 15 to 10 days	FFCO reports	MTR/LT
Audits	Reports On time and entered into SAP.	Country and Sector Departments	CIMM		90% of operations up to date on Audits and data entered in SAP system	MTR/LT
Procurement	Timely procurement	Sector and Country Departments	PPRU	Average procurement time reduced to 6-8 months, from 13 to 20 months		MTR/LT

Issues/ Objective	Actions to be taken	Lead Department	Support Department	Target Indicator	Indicator description / Comments	Target Date
Post-Evaluation PCRs	Project completion reports	Sector and Country Departments	OPEV	Annual PCR program, established by OPEV and Ops. Complexes met 100%	Address PCR backlog systematically and ensuring fair distribution among all sectors	MTR
Results Based Management	Implementation Plan under execution	All Departments	POPR / CIMM	Implementation Plan on schedule	Timetable will be developed by consultants before year-end 2004	MTR/LT
Field Offices	Field Offices established in priority countries	Country Departments	Sector Departments	8 new Field Offices opened and staffed.		MTR/LT
Strengthen Research Function	Research program fully functioning	PDRE	Country and Sector Departments	8 staff + 1 chief economist	All researchers recruited	
		PDRE	Country and Sector Departments	Research program report	Research program established	
		PDRE	Country and Sector Departments	xx Reports or articles / year	Publishing schedule / program in conjunction with research program	