

**African Development Fund (ADF)
First ADF-XI Replenishment Meeting
Dar-es-Salaam, Tanzania
14-15 March 2007**

Chair's Summary

1. ADF Deputies, joined by Representatives of Beneficiary Countries and International Development Institutions, met for the first meeting of the ADF-XI Replenishment in Dar-es-Salaam, Tanzania, on 14-15 March 2007. The President of Tanzania, H.E. Jakaya Mrisho Kikwete, addressed the participants. He drew attention to the needs of Africa and the importance of the ADF, illustrated by examples of ADF's positive development impact in Tanzania. President Kikwete saw the Replenishment as an opportunity to scale up assistance in line with donor commitments and to improve predictability and harmonization in order to make faster progress. The African Development Bank President, Dr. Donald Kaberuka, welcomed the participants and thanked the Government of Tanzania for hosting the meeting. He highlighted the mutual accountability of the international community and African countries to deliver on the Millennium Development Goals and emphasized the Bank Group's growing institutional capacity.

2. The meeting was chaired by Sven Sandström who summarized the objectives for the meeting: (i) for ADF Management to report on progress on institutional reforms and implementation of key initiatives following the pledge made by Management at the Mid-term Review that 2007 would be a year of delivery; (ii) to look forward to the ADF-XI Replenishment by reviewing strategic priorities for ADF; and (iii) to agree on the roadmap for the ADF-XI Replenishment meetings in order to ensure a successful outcome.

Progress Reports

3. Participants discussed progress on internal reforms aimed at improving the operational capability and effectiveness of ADF, including: (i) corporate performance measurement; (ii) improved portfolio management; (iii) strengthening of procurement and financial services; (iv) decentralization; and (v) business and budget process reforms. Participants welcomed the steps being taken.

4. Participants emphasized that responsibility for action in these areas rests with Management and the Board and urged that reforms be implemented more quickly, including much faster progress on budget reform. They observed that several strategic themes require attention as implementation proceeds, including: (i) the over-arching objective of the reforms, which is development effectiveness and the imperative of orienting all ADF activities towards achieving on-the-ground development results; (ii) ADF's fiduciary responsibility, which should not be compromised as reforms are undertaken in areas such as decentralization and procurement; (iii) harmonization between ADF procedures and those of other institutions; (iv) strengthening of country capacity; (v) incentives to ensure quality of operations and results on the ground; and (vi) gradual delegation of authority to country offices within the context of strong fiduciary controls, as noted above. Participants stressed the importance of business process reform to support country teams and to address cross-cutting issues. They asked for follow-up on previously raised concerns that also help determine the effectiveness of ADF, including the reviews of ADF governance structures and the statutory provisions on rules of origin.

5. Participants discussed the ongoing work on ADB human resources reform. They welcomed the progress being made and urged the Bank to continue to build momentum in this critical area. They appreciated the emerging improvement in diversity, particularly gender balance, and urged continued attention to language, age, geography and gender. They emphasized the urgency of filling the remaining professional level vacancies. They commended the decision to link explicitly the assessment of staff performance to achieving results on the ground. They urged that internal decision-making be speeded up, including the approval of the new comprehensive human resources strategy of the Bank Group.

Long-Term Financial Sustainability of the ADF

6. Participants discussed the paper prepared on long-term financial sustainability of the ADF. They felt that the paper conveyed an optimistic impression of the future finances of ADF without adequate analysis of risks and the sensitivity of the conclusions to key assumptions. They stressed that there was no room for complacency and that the analysis should demonstrate the extent to which the fulfillment of donor commitments will be critical to the long-term sustainability of ADF. In particular, while reaffirming their commitment to compensate ADF dollar for dollar for the MDRI, participants asked that an analysis be undertaken of the financial impact on ADF in case of delays in payment of the MDRI and HIPC compensation. Participants requested that the paper be revised for their next meeting.

7. They also requested that scenarios for the ADF-XI replenishment be prepared on the basis of inter alia country need and capacity, the performance of both beneficiaries and ADF, and the role of ADF vis-à-vis other institutions supporting Africa's development.

Strategic priorities for ADF-XI

8. ***Fragile States:*** Participants welcomed the attention paid to this issue given its importance in Africa. They urged the Board and Management to sharpen their efforts to determine the best approach of ADF. They noted that there is agreement on the basic objective and fundamental principles, such as the need to ensure a performance based approach of ADF, while there are still differences of view on the best modalities, including how broadly to define fragile states, what types of engagement would be most appropriate, what sources of financing to use and, ultimately, whether to mainstream support to fragile states or to split off such support into a separate facility or window. They emphasized that more analysis was required in order to make such a determination. The analysis should include the assessment of alternative scenarios with regard to potential country groupings, financing levels and procedures. This in turn would require more clarity on definitions and criteria in consultation with partners. They therefore welcomed ADF's active participation in the working group newly established by the Heads of MDBs to examine the issue. Participants asked that a revised paper be prepared for their next meeting, reflecting their comments and suggestions and also reflecting further discussions with the Board.

9. ***Multi-National Operations and Regional Integration:*** Participants welcomed the progress made by the Bank Group in financing multi-national and regional integration projects. They noted the significant demand for additional financing and urged the ADF to work closely with partners and to play a catalytic role in meeting this demand. They emphasized that multi-national projects should be assessed in their broader context of trade, regional integration and poverty reduction and urged more attention to their development impact. Participants asked Management to address the volume of funding to be provided to multi-national projects in the context of the ADF-XI lending scenarios. They requested that criteria for funding allocations to

multi-national projects be formally established and include a link to performance, drawing on the experience of other institutions and lessons from independent evaluations. The latter would specifically include an examination of the benefits of requiring countries to use a meaningful portion of their individual country allocations toward their regional projects as a way of expanding the resources available for multi-national operations and to strengthen country prioritization and the link to country performance.

10. **Water and Sanitation:** Participants welcomed the progress being made but urged that implementation be speeded up, particularly by filling key vacancies and improving coordination with country authorities and with partner institutions. They emphasized the need to ensure alignment between the Rural Water Supply and Sanitation Initiative (RWSSI) and Country Strategy Papers, consistent with country priorities, which in turn would enable a closer alignment between the performance based approach and the RWSSI. In this context, they reaffirmed that earmarking of ADF resources for specific sectors is not appropriate. They asked for greater clarity on the availability of donor and Bank Group resources to meet targets.

11. **Overview of strategic priorities:** Participants discussed more broadly the strategic priorities for ADF-XI. They welcomed Management proposals addressing operational focus, resource allocation, and institutional reforms. On operational focus and effectiveness, they reiterated their support for ADF's work with fragile states, multi-national projects and water and sanitation. They expressed strong support for increased selectivity and for the emerging sharper focus of ADF on infrastructure and on catalysing private sector support. They noted the many synergies between these two areas and the potential for significant development impact. Participants suggested that other subjects of concern – such as gender, clean energy and climate change adaptation – be integrated with the focus areas. They asked for greater clarity on ADF's role in the aid architecture, reflecting its comparative advantages while also ensuring complementarity. They asked for further attention to country-level effectiveness and harmonization, with the ultimate aim of better results on the ground. Participants reiterated their request for a revised paper on the long-term financial sustainability of ADF and for further analysis of country debt sustainability and risks related to free riding, which are issues of strategic concern.

12. On resource allocation, participants reconfirmed the centrality of the PBA system while requesting that further simplification and clarification be considered. They asked that the overall proportion of ADF resources allocated through the PBA system and the flexibility with which it is used be closely monitored and reported.

13. On institutional reform, participants reiterated their strong support noting that the roadmap now is clear and that it is up to ADF Management and Board to move more rapidly on implementation.

Other Matters

14. Participants agreed that 1st April to 30th September 2007 would be the period over which the ADF-XI exchange rates will be averaged and that 2004-2006 would be the applicable period for the inflation rate calculation.

15. Participants reiterated their appreciation for the invitation of the Government of the People's Republic of China to host the second replenishment meeting in May in Shanghai. However, in view of the heavy agenda planned for the meeting and the need for adequate advance preparation, participants decided that the second meeting should be postponed to

June (11-12, tentatively) in Tunis. The third meeting would be held in September / October while a fourth and final meeting would be held in November / December, with specific dates and locations to be decided in due course.

16. Participants agreed on a preliminary list of subjects and papers to be discussed at the upcoming meetings, as set out in the Annex. They emphasized that the following principal themes should be covered: ADF's role in Africa's aid architecture, effectiveness on the ground, strategic priorities, financing and allocation, and specific issues (such as ADF governance).

17. Participants expressed their appreciation for the warm hospitality of the Tanzanian authorities and the excellent facilities provided for the meetings.

ANNEX**ADF-XI Meetings – List of Papers****Second Meeting****Discussion Papers**

Deputies Report – Preliminary Annotated Outline
Enhanced Engagement in Fragile States – Revised Approach Paper
Long-Term Financial Sustainability of the ADF – Revised Paper
ADF-XI Financing Framework (internal resources, carry-over, structural gap, etc.)
ADF-XI Strategic Directions and Indicative Lending Scenarios
Procurement Rules of Origin

Background Papers

Progress Report on Institutional Reform, including Human Resources Reform
Performance Based Allocation – Resolution of 2006 Data Quality Issues
Update on Multilateral Debt Relief Initiative, grant levels and compensation
High-Level Panel -- Interim Report

Third Meeting**Discussion Papers**

Draft Deputies Report (which would cover, inter alia, results, role and strategic directions)
Resource Allocation under ADF-XI
ADF-XI Financing Levels and Preliminary Donor Indications
Report on ADF progress with regard to the Paris Declaration on Aid Effectiveness
ADF Governance

Background Papers

Progress Report on Institutional Reform, including Human Resource Reform
ADB Medium-Term Strategic Plan – Status Report
Update on Gender Action Plan

Fourth Meeting

Deputies Report
ADF-XI Operational Priorities and Financing

15 March 2007