

AFRICAN DEVELOPMENT FUND



Strategic Priorities and Key Issues for ADF-XI Discussion Note

ADF-XI Replenishment Meeting

14 – 15 March 2007

Dar-es-Salaam, Tanzania

1. INTRODUCTION

1.1 The agenda for the ADF-XI Replenishment consultation in Dar es Salaam has designated a session for what ADB Management hopes will be an open and forward-looking dialogue about strategic priorities and key issues for the agreement that we need to conclude this year.

1.2 Deputies have already signaled, during the Hague Mid-Term Review and through the Executive Board in Tunis, interest and concern around a number of issues that are common to the Multilateral Development Banks and that, in many cases, have been in focus for some time. There are also important issues specific to the African Development Fund as it moves through a difficult and complex process of change, restructuring and refocus. And there are issues deriving directly from the unique set of African circumstances and opportunities within which the Fund must operate more effectively during the 2008-2010 replenishment period.

1.3 This note is intended briefly to set out some of these diverse issues as a means to stimulate a dialogue with and among the Deputies, to solicit guidance as to priorities and objectives going forward, and to help Management most usefully to frame the replenishment consultation still ahead.

2. OPERATIONAL FOCUS

2.1 Inadequate basic infrastructure – in transport, power, water and sanitation – remains a fundamental development obstacle for ADF countries, impeding market access, competitiveness, diversification, and attainment of specific MDGs. Sharply limited regional integration, itself a consequence of infrastructure deficiencies and policy choices, further reinforces these core impediments.

2.2 Africa's urgent development challenges and priorities clearly go well beyond infrastructure and integration -- insufficient and ineffective human development systems; limited and non-inclusive financial systems; poor governance and institutional capacity; continued dependence on low-value agriculture; narrow productive, revenue and savings bases.

2.3 Remaining engaged and operating effectively in challenging governance environments is an imperative for the Bank. This will require building a deeper understanding of unique individual circumstances, well-designed and focused operations (both lending and non-lending) with clearly specified objectives, and strong collaboration with other partners.

2.4 There is broad agreement on the particular urgency of, and challenges around, deeper and more effective ADF-supported engagement in post-conflict and fragile circumstances. Priority now must be given to agreeing the specific elements of an improved policy and operational approach, including with respect to financing options.

2.5 Experience in several sectors critical for sustained growth and development, such as agriculture, education, and health, underscores the need for more creative approaches and innovative partnerships, including with the private sector; a deeper

and more systematic understanding of lessons learned; a sharper focus on specific deliverables; and, a more intensive focus on delivery.

2.6 The Bank's Boards and the RMCs have been endorsing a new generation of Country Strategies setting out more selective and focused operational programs. The Boards, and subsequently the ADF Deputies, have expressed broad support for the more selective and focused approach to operations presented by Management in the Indicative Operational Program (IOP) for 2007.

2.7 The IOP for 2007 is built around a strengthened concentration in water and infrastructure, including through multinational operations and in private sector development. Preliminary background papers have been prepared to elicit Deputies' views on expanded forward engagement in multinational and water sector investments. The IOP also anticipates continued substantial operational work in other areas of long-standing Bank engagement, such as human resource investment, agricultural and rural development, and the financial sector. While project-based finance will remain primary, budget and policy-based support is also programmed.

2.8 The Bank will prepare a new Medium-Term Strategic Plan this year, for application during the 2008-2010 period. Its scope will cover all of the Bank Group's regional member countries (RMCs), from ADF-only countries, to blend countries, to ADB-only countries. Our timetable is to conclude the process, with formal Board discussion and approval, by the middle of October. Issues raised during three ADF-XI consultations (Dar, Shanghai, and a third meeting expected in September) will directly inform the preparatory process, as will the views of Governors during the Annual Meeting, and an extensive internal and external consultation process.

2.9 Separately, the specially constituted High-Level Panel (HLP) will provide valuable independent reflections on the Bank's strategic direction going forward, including with respect to areas of operational concentration and emphasis. The HLP will issue an interim report at the time of the Annual Meeting.

Do Deputies view the ADF's current operational priorities, selectivity and balance of instruments as broadly appropriate going forward?

Which specific issues relating to the Fund's operational focus during the coming ADF-XI period require further reflection and elaboration?

Are there specific issues with respect to ADF lending instruments and grants/loans composition on which Deputies wish to focus particular attention?

3. ADF RESOURCE ALLOCATION

3.1 Across the MDB system, limited pools of concessional resources continue to be allocated on the basis of essentially two core principles: first, relatively higher resource flows should go to relatively better-performing countries, objectively determined; and, second, allocations should also reflect need.

3.2 The Performance Based Allocation (PBA) system, designed to capture and give appropriate weight to both performance and need, remains the core allocation mechanism, including for the African Development Fund. For some specific purposes, such as water and sanitation investments, ex ante targets have been established for new commitments, but with the proviso that these commitments be made within the overall PBA mechanism. In addition, and by prior agreement, limited pools of concessional resources have been earmarked, outside of the country-specific PBA system, for designated purposes such as for funding cross-border investments. In this latter case, emerging demand and opportunities for investments significantly outstrips the ADF resources available thus far.

3.3 The mechanics and application of PBA systems have been a matter of ongoing scrutiny, discussion, and some controversy among all interested parties. As a result, the PBA systems in each of the institutions have evolved across replenishment periods, with some of their specific features adjusted to improve their allocative performance in the light of accumulated experience.

3.4 Nevertheless, significant challenges remain. These include: sometimes high volatility in annual allocations for individual countries, making it difficult to develop and deliver a coherent multi-year operational program; weighting issues for some key variables such as governance; an inherent lag in the ratings process, leading in some circumstances to a disconnect between allocation levels and real-time performance developments in-country; very small allocations for many countries, leading to very small operations and/or lack of committable resources even where performance is good; prioritizing the allocation of resources from earmarked pools outside of the PBA framework; and, allocating uncommitted resources either during or at the conclusion of a replenishment period.

Do Deputies see a need for adjustment of the PBA system for application during the ADF-XI period?

Should adjustments be sought primarily in the PBA system's specific design, in its application, or in both?

How should an appropriate balance be found between the volume of ADF resources allocated within the PBA system, on the one hand, and the volume of resources earmarked for specific purposes outside of the PBA system, on the other?

Are new approaches needed to allocate ADF funds from earmarked special pools outside of the PBA system? From resources that remain uncommitted at the close of a replenishment period?

4. INSTITUTIONAL REFORMS

4.1 The Action Plan agreed under ADF-10 was built importantly around a wide-ranging set of institutional reforms designed ultimately to improve the efficiency, development effectiveness, and catalytic impact of ADF resources. Substantial

progress has been made on implementation in key areas, although the track record is uneven and overall implementation remains a work in progress.

4.2 The reorganization of the Bank's operations complexes provides a significantly improved platform from which to deliver key institutional imperatives such as improved quality at entry, better portfolio supervision, stronger country focus and field presence, greater alignment of operations and country strategy, and better collaboration with external partners.

4.3 The reorganization has necessitated further adaptation and improvement of internal processes relating to operations, beyond those envisioned in the ADF-10 Action plan. This work is well underway and slated to be largely completed by mid-year.

4.4 Decentralization and the opening of a larger network of field offices have proceeded broadly on schedule. Priority additional work remains to ensure appropriately tailored staffing, devolution of meaningful authority, full integration of field offices with central units, and effective oversight, reporting and fiduciary controls.

4.5 Significant and complementary changes are required in internal budget processes in order to enable greater managerial-level effectiveness, build greater accountability for specific deliverables, and ensure that internal resource allocations support strategic priorities. Specific proposals are now under review by the Board.

4.6 Translating institutional commitments into demonstrably improved development results is a critical ongoing challenge. Revamped processes to improve quality at entry and portfolio management are in place, but must be more firmly rooted during the course of 2007. Individual projects are getting more intensive upstream review by senior management, and well-defined monitorable indicators are being specified. Corporate level performance indicators have been identified, are framing more specific performance targets at lower levels, and will be the basis for clearer accountability at every level.

4.7 The Bank is working toward fuller implementation of the Paris Declaration, improved aid coordination on the ground, and deeper partnerships across the range of its work. Progress has been made, on which we will be reporting shortly, but substantially more needs to be accomplished during the year ahead and over the ADF-XI period.

4.8 Renewal of the Bank's human resource base and comprehensive reform of its HR policies and practices is an agreed imperative. Managerial-level vacancies have largely been filled and significant progress is being made to fill others. However, even reduction of vacancies to a minimal level by year end will still leave the institution under-resourced relative to the scope and scale of the development challenge in Africa. Major initiatives are underway across the board to modernize policies and practices; most key components of a thoroughly revamped system will be delivered by year end.

Are the institutional structure and process initiatives now in train seen as broadly adequate and appropriate?

Do Deputies have specific guidance with respect to priorities and timelines within the array of institutional initiatives already presented?

Are there new or additional institutional issues seen by Deputies as central to improving our impact, efficiency, and delivery during the ADF-XI period?