

# **The New Role of the African Development Fund in the Changing Aid Architecture**

**Background Paper**

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**AFRICAN DEVELOPMENT FUND**

## Executive Summary

The global aid architecture has undergone significant changes in past decades, creating both opportunities and challenges for African low-income countries and the development community as a whole. The role of development financing institutions such as the African Development Bank has also been evolving and continues to be influenced by these changes:

- **Overall Official Development Assistance (ODA) volumes to African low-income countries have increased significantly**, rising from net disbursements of US\$ 22 billion in 2000 to US\$ 36 billion in 2007, largely as a result of debt relief initiatives. ODA to core development programs has also increased from US\$ 15 billion to US\$ 24 billion over the same period. Despite these increases, ODA volumes remain far below donor commitments and the enormous sums needed by ADF countries to meet the Millennium Development Goals. The consequences of this shortfall are all the more serious in the context of the global economic and financial crisis, whose repercussions are beginning to significantly impact growth in ADF countries.
- **Vertical or special purpose funds (especially in the social sectors) have played a growing role** and overall funding priorities have shifted from infrastructure to social sectors. This has left infrastructure financing needs of approximately US\$ 35 billion per year largely unfunded.
- **New non-traditional, bilateral (China, India, Brazil) and/or private (foundations) donors** are providing ADF countries with a rapidly growing amount of resources, often on non-concessional terms.
- The development community is experiencing a **growing proliferation and fragmentation of aid**. The number of DAC bilateral and multilateral donors in ADF countries averaged 26 per country for the 2005-2007 period, of which 9 donors on average provided 90 percent of country programmable aid. This situation imposes significant transaction costs and aid management challenges on both donor and recipient countries, particularly with regard to the quality, effectiveness and predictability of development aid.

To seize the opportunities and respond to the challenges created by these changes, the aid community has launched a number of initiatives: a comprehensive roadmap for development financing was adopted in Monterrey (2002); measurable targets to improve aid effectiveness were adopted and reaffirmed in Rome (2003), in Paris (2005) and in Accra (2008); and multilateral development financiers committed to measuring and accounting for the impact of their assistance in Marrakech in 2004.

Consistent with the aid community's efforts to rationalize the aid architecture, one of the key findings of the High Level Panel established in 2006 to consider the future of the ADB and its role in ensuring Africa's success, was that Africa needs a strong development bank to face the challenges of the 21<sup>st</sup> century and that the ADB should be that bank. This view, which is strongly supported by the Bank's regional and non-regional shareholders, has informed an ambitious repositioning and institutional capacity-building program that aims to position the Bank Group as the continent's premier development finance institution. With regards to ADF countries, the Bank Group is positioning itself to become:

- **The lead donor in a selected number of areas where it can add most value:** The ADF has significantly adjusted its strategic focus to target a few relatively underfunded sectors where it can make a real difference. For ADF-11, these sectors consist of infrastructure, governance and regional integration, with particular focus on fragile states. This greater selectivity has enabled the ADF to provide around 13 percent and 21 percent of total ODA flows to ADF countries in infrastructure and regional integration during the 2005-2007 period. The ADF is also taking a leadership role on innovative instruments and approaches, particularly with respect to fragile states (arrears clearance and supplementary financing mechanisms), regional integration and regional public goods.
- **Africa's voice and knowledge platform:** The Bank Group's structure (African ownership, an elected African President and predominantly African staff) confers it a

unique legitimacy which the Bank exercises in its role as the leading voice of the continent on regional issues and as African countries' preferred representative in international fora, most recently on the global financial and economic crisis. The Bank's unique structure also makes it the partner of choice for a broad range of special African mandates and initiatives. Concurrently, the Bank Group is engaged in a large-scale program to become the continent's knowledge management platform.

- **The continent's resource mobilization platform:** The Bank Group's growing legitimacy and convening power, combined with its streamlined and modernized trust fund procedures, are positioning it at the forefront of multidonor resource mobilization initiatives for ADF countries, such as the recently approved Congo Basin Forest Fund.
- **The facilitator of private sector activities in ADF countries:** The integrated nature of the Bank Group's financing windows place the Fund in the unique position of facilitating private sector activities in ADF countries not only through its operations in infrastructure, governance and regional integration, all of which support a sound investment climate, but also through synergies with the Bank's private sector window, which in 2009 became the continent's largest. Bank Group windows are thus increasingly working in tandem with innovative public-private partnerships to provide comprehensive financial solutions to ADF countries.
- **ADF countries' partner of choice in times of crisis:** The Bank Group is increasingly leading coordination efforts and resource mobilization to respond quickly and effectively to emerging crises that affect the continent. This was particularly the case in 2008 and 2009 with the food and financial crises. As a flexible institution, the Bank Group demonstrated its ability to rapidly adapt its policies and country pipelines to the changing needs of its client countries and restructure its portfolio by shifting resources between sectors or instruments. It was also able to offer innovative instruments and facilities designed to help ADF countries overcome the effect of these crises.

These and other supporting measures are positioning the Bank Group of the 21<sup>st</sup> century as a strong, selective and focused bank, with a leading role in its areas of strategic intervention, particularly regional integration. The Bank will continue to capitalize on the changing global aid architecture to position itself as Africa's lead knowledge institution, providing a clear and articulated voice for its RMCs, and as a development partner that creates flexible, responsive and innovative solutions to meet its members' changing needs.

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## Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADF-10	Tenth General Replenishment of the African Development Fund
ADF-11	Eleventh General Replenishment of the African Development Fund
ADF-12	Twelfth General Replenishment of the African Development Fund
C-10	Committee of Ten Ministers of Finance and Central Bank Governors
CBFF	Congo Basin Forest Fund
DAC	Development Assistance Committee
EPSA	Enhanced Private Sector Assistance
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
MDRI	Multilateral Debt Relief Initiative
NEPAD	New Partnership for Africa's Development
NGO	Nongovernmental Organization
NTFG	Nordic Trust Fund on Governance
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PBL	Policy-Based Loan
RMCs	Regional Member Countries
UA	Units of Account

# **THE NEW ROLE OF THE AFRICAN DEVELOPMENT FUND IN THE CHANGING AID ARCHTECTURE**

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## **1. Introduction**

- 1.1 The global aid architecture<sup>1</sup> has undergone significant changes in past decades. Overall Official Development Assistance (ODA) volumes have increased sharply in the 2000's, largely as a result of debt relief initiatives. This increase has been accompanied by a significant increase in the number of donors and donor channels (proliferation); a greater number of donor-funded activities with a relatively smaller share of resources (aid fragmentation); the earmarking of a large proportion of aid for specific sectors or issues within sectors (verticalization); and the growing role of non-Development Assistance Committee (DAC) bilateral and private donors.
- 1.2 At the Monterrey International Conference on Financing for Development in 2002 and subsequent fora<sup>2</sup>, donors and partners agreed to address the challenges resulting from these changes to development financing by improving the quality and increasing the volume of aid, and enhancing the relevant national and global economic systems. They also agreed to make concerted efforts to improve aid effectiveness through closer alignment to country priorities and ownership, improved transparency and greater orientation toward results. During the Third High Level Forum held in Accra in 2008 and the Kigali regional preparation workshop organized by the African Development Bank (ADB or the Bank) in March 2008, African countries articulated some of the critical challenges that they face in this context. These challenges include reducing donor fragmentation while maintaining a diverse set of approaches and instruments that can be flexibly used, agreeing on a division of labor that is based on partner countries' development priorities, and allocating donor roles on the basis of donors' comparative advantages with a view to optimizing results.
- 1.3 This paper responds to a request by the African Development Fund (ADF or the Fund)'s Deputies for an analysis of the role of the ADF in this changing aid architecture. This analysis is to frame discussions for the Twelfth General Replenishment of the African Development Fund (ADF-12). The paper's objectives are twofold. First, it seeks to present a brief outline of the main features of Africa's current aid architecture, with a particular focus on ADF-eligible countries (Section 2). Second, it shows that, despite its medium size, the Bank Group has in the past few years effectively repositioned itself as the lead donor in infrastructure, governance, regional integration and support to fragile states; as the voice and convening power of the continent; and as a responsive and flexible partner that helps African low-income countries address the consequences of external shocks and crises (Section 3). This paper does not propose strategic orientations for the ADF-12 period: these orientations will be discussed in the Mid-Term Review paper, "Strategic Directions for ADF-12" and will be further developed as part of the ADF-12 replenishment consultations.

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<sup>1</sup> According to the definition used by the World Bank, aid architecture is the set of rules and institutions that governs aid flows to developing countries.

<sup>2</sup> The Rome High Level Forum on Harmonization (2003); The Marrakech Roundtable on Managing for Development Results (2004); The Paris High Level Forum on Aid Effectiveness (2005); the Accra High Level Forum on Aid Effectiveness (2008); and the Doha Follow-up International Conference on Financing for Development, that reviewed the implementation of the Monterrey Commitments (2008).

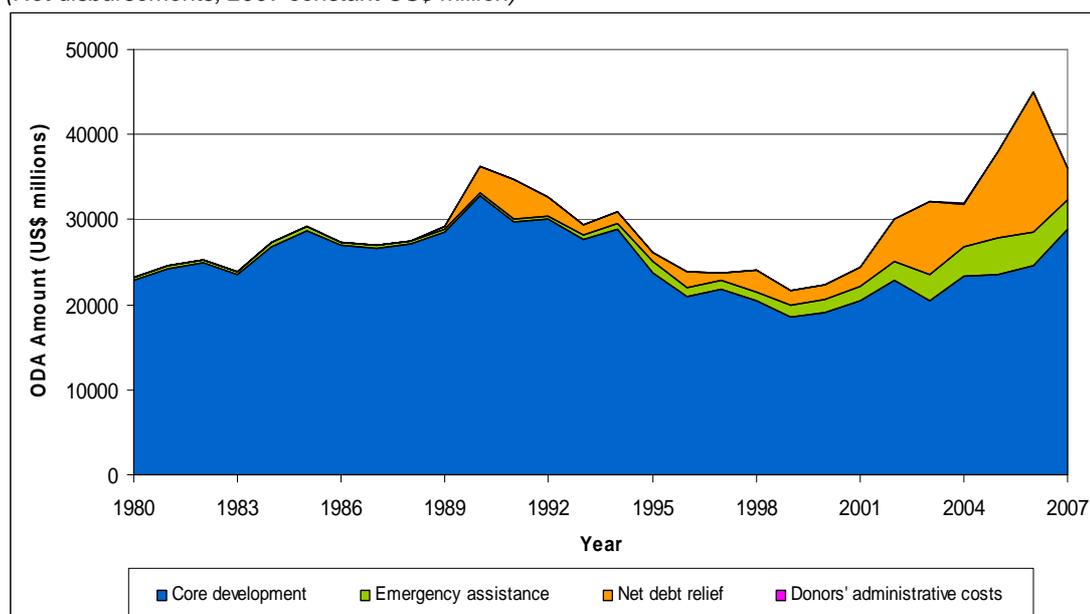
## 2. Recent Evolution of the Aid Architecture in Africa

### *Development Financing: Overall Trends of Official Development Assistance to Africa*

- 2.1 Trends in net ODA flows from DAC donors<sup>3</sup> to Africa in the last two decades present a mixed picture of increases and decreases with a record high of US\$ 45 billion in 2006 and a decrease of more than 20 percent to US\$ 36 billion in 2007<sup>4</sup> (Figure 1). The increase in ODA between 2000 and 2006 was driven primarily by special-purpose grants for emergency assistance and debt relief. The amount of debt relief grew steeply from US\$ 1.7 billion in 2000 to US\$ 16.5 billion in 2006 at the peak of debt relief implementation under the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Debt relief declined to US\$ 3.7 billion in 2007. Excluding debt initiatives and emergency assistance, net ODA disbursements to core development programs or country programmable aid<sup>5</sup> has fluctuated between US\$ 18 and US\$ 33 billion per year since 1980. The share of ODA flows to African low-income countries has increased steadily from about 78 percent in the second half of the 1990s to 90 percent in 2005-2007, while the share of ODA to middle-income countries was more than halved to 10 percent over the same period<sup>6</sup>. This evolution reflects donors' increasing focus on the poorest countries (Annex II). ODA flows to ADF-eligible countries followed the same trend as that of ODA to all African countries, increasing from about US\$ 16 billion in 1980 to US\$ 40.3 billion in 2006 and declining to US\$ 30.6 billion in 2007 (Annex III).

**Figure 1: Total ODA to Africa from DAC Donors, 1980-2007**

(Net disbursements, 2007 constant US\$ million)



Source: ADB using OECD-DAC CRS online database

- 2.2 ODA flows to Africa between 1980 and 2007 have largely been provided through bilateral channels (68 percent on average) that encompass a wide range of development actors and partners including governments, international and national nongovernmental organizations (NGOs), private contractors and civil society. Among bilateral donors, the share of individual countries' ODA disbursed through multilateral channels varies between 0 and 82 percent

<sup>3</sup> Unless indicated otherwise, ODA figures discussed in this paper refer to flows from DAC donors.

<sup>4</sup> Preliminary OECD estimates of global ODA flows in 2008 indicate a reversal of this decline and a rebound of total net ODA (to developing countries) from DAC donors to an all-time high of US\$ 113.99 billion in 2007 prices (or US\$ 119.8 billion in current prices) compared to US\$ 103.49 billion in 2007 and the previous peak of US\$107.07 in 2005. See OECD. 2009. *Development aid at its highest level ever in 2008*. OECD online brief.

<sup>5</sup> The various sub-categories of ODA are defined in Annex I.

<sup>6</sup> Refer to Annex I for country classifications.

(see Annex IV for net disbursements through bilateral and multilateral channels between 2002 and 2007 and Annex V for a list of main donors to Africa). With its average net annual ODA disbursements increasing from US\$ 295 million in 1981-1983 to US\$ 1.2 billion in 2005-2007, the ADF is Africa's ninth largest donor overall (Annex VI, Table VI-1). In most countries, ADF's average ODA commitments range between 3 and 10 percent of all donors' ODA commitments to that country (Annex VI, Table VI-2).

### ***Sector, Regional and Instrument-Related Distribution of Official Development Assistance to ADF-Eligible Countries***

- 2.3 *Sector distribution*: Multisector (primarily governance-related) and social sectors have been the largest beneficiaries of ODA to ADF-eligible countries over the past 10 years.<sup>7</sup> While the share of ODA commitments to multisector activities has retained a relatively stable average of 33 percent over the period, the share of ODA commitments to social sectors has grown from an average of 25 percent in 1996-1998 to 36 percent in 2005-2007 (Figure 2). During the same period, the share of agriculture and industry (i.e. the production sector) and infrastructure in total ODA has declined, despite enormous unmet financing needs estimated at US\$ 35 billion per year for infrastructure alone.<sup>8</sup>
- 2.4 To adapt to the evolution of the aid architecture and fill part of these unmet financing needs, the ADF has increased its strategic focus and selectivity, shifting from social sectors, agriculture and industry to infrastructure, governance and regional operations. In the Tenth General Replenishment of the African Development Fund (ADF-10) period (2005-2007), the largest shares of ADF financing were allocated to infrastructure (40 percent) and to multisector (mostly governance-related) (28 percent).
- 2.5 Related to the sector distribution of ODA is the growing trend of earmarking resources for social sector programs (verticalization). Special purpose funds (vertical programs) play a critical role in bringing attention to specific issues that may otherwise be neglected, and in mobilizing significant resources to address unmet needs. Their focus also allows them to achieve economies of scale both in terms of procurement and human capacity. The corresponding challenge, however, is that in the absence of an internationally agreed framework that allocates aid resources on the basis of the evolving needs of each recipient country, success in mobilizing resources for single-issue causes at the global level can come at the expense of other equally deserving sectors or sub-sectors at the country level. In selecting its areas of focus, the ADF has given due consideration to the challenges faced by partners in financing other, often under-funded, development priorities, such as infrastructure, within and across ADF countries.

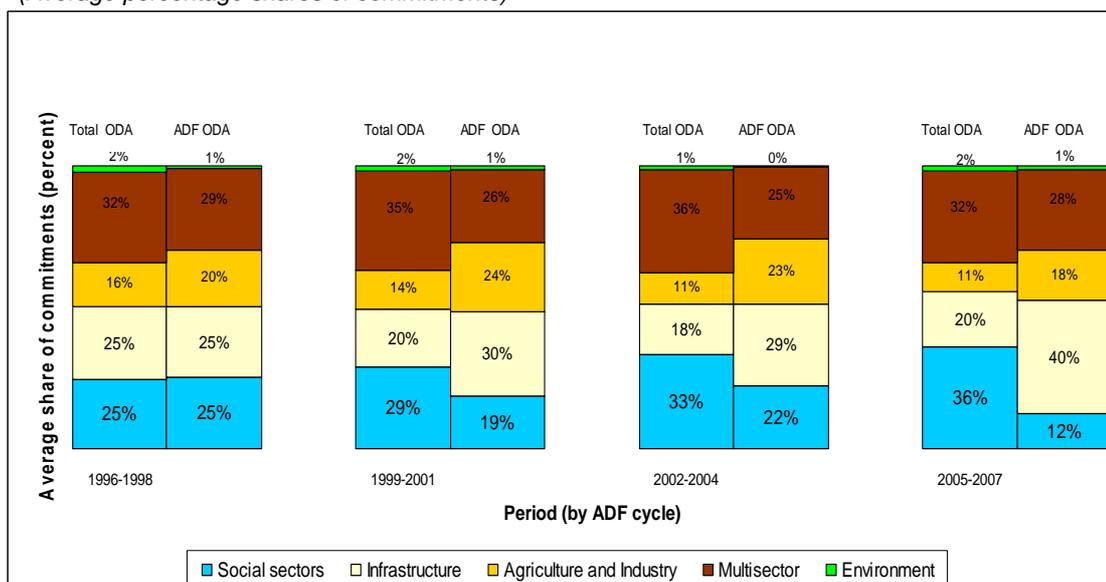
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<sup>7</sup> This is the sector classification used at the ADB, which is different from the OECD-DAC classification. All data provided in this report is organized in accordance with ADB's classification. For definitions of each sector, refer to Annex I.

<sup>8</sup> The Africa Infrastructure Country Diagnostic study estimated Africa's infrastructure needs at US\$75.5 billion per year for the next 10 years, including capital expenditures (US\$ 38.1 billion) and operations and maintenance (US\$ 37.4 billion). Out of this amount, USD 35 billion corresponds to the financing gap. Africa Infrastructure Country Diagnostic. September 2008. *Overhauling the Engine of Growth: infrastructure in Africa*.

**Figure 2: Sector Distribution of Total ODA and ADF ODA to ADF-Eligible Countries, 1996-2007**

(Average percentage shares of commitments)

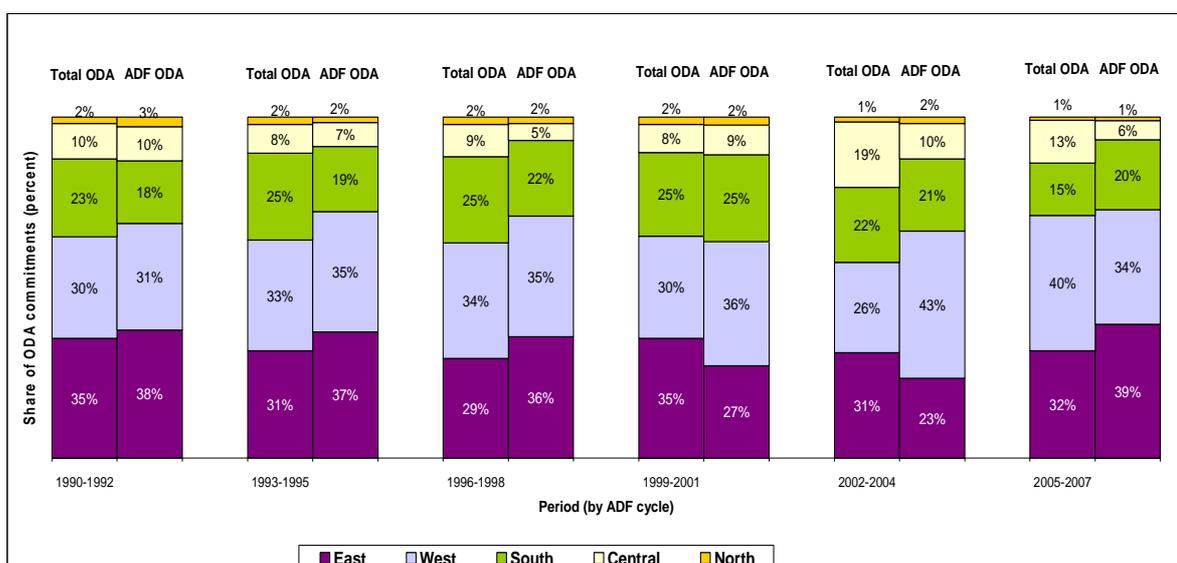


Source: ADB using OECD-DAC CRS online database

2.6 **Regional distribution:** Analysis of ODA distribution by region between 1990 and 2007 shows that East and West Africa received the largest share of total ODA to ADF-eligible countries (60 percent) while North Africa received the smallest share (1 percent) (Figure 3). This difference is primarily due to the small number of ADF-eligible countries in North Africa. Distribution of ODA between the East and West regions has fluctuated substantially over time, reflecting variations in donor priorities, conflicts and performance issues. East and West Africa were also the largest beneficiaries of ADF flows but these flows were distributed differently than were ODA flows, most likely because the ADF mandate covers all ADF countries whereas other donors usually focus the bulk of their operations on a more limited set of countries, and because ADF allocations are solely based on the Performance-Based Allocation system. On a country-by-country basis, the top ten recipients of total as well as ADF-only ODA between 2002 and 2007 (the Ninth and Tenth General Replenishment cycles) are shown in Annex VI, Table VI-3. Collectively, ten ADF countries received 62 percent of all ODA resources and 67 percent all ADF resources disbursed during this period.

**Figure 3: Regional Distribution of Total ODA and ADF ODA to ADF-Eligible Countries, 1990-2007**

(Average percentage shares of commitments)



Source: ADB using OECD-DAC online database

2.7 *Instrument-related distribution:* The amount of total ODA delivered to ADF countries through fast-disbursing instruments (debt relief and policy-based loans (PBLs)<sup>9</sup>) increased significantly during the 1996-2007 period, from 24.1% of total ODA for the 1996-1998 period, to 42.5% for the 2005-2007 period. Within fast disbursing instruments, debt relief flows increased faster than PBLs. Table 1 shows that the amount of general budget and sector program support increased from US\$ 1.8 billion (12 percent of total ODA) in 1996-1998 to US\$ 6.2 billion (15.5 percent) in 2005-2007, while debt relief grew from US\$ 1.8 billion (12 percent) to US\$ 10.8 billion (27 percent) over the same period. The increases in fast-disbursing instruments, especially debt relief, to ADF-eligible countries have helped to ease pressure on government budgets and balance of payment positions.

**Table 1: ODA to ADF Countries for Fast-Disbursing Support, 1996-2007**

(Average commitments, US\$ million in 2007 constant prices)

Type of Fast-Disbursing ODA	1996-1998		1999-2001		2002-2004		2005-2007	
	Amount	%	Amount	%	Amount	%	Amount	%
PBLs, Sector Programs <sup>(1)</sup>	129	0.9	67	0.3	1117	3.8	2585	6.5
PBLs, General Budget Support	1651	11.0	2980	14.3	3499	11.8	3585	9.0
<b>Total PBLs</b>	<b>1780</b>	<b>11.9</b>	<b>3047</b>	<b>14.6</b>	<b>4616</b>	<b>15.6</b>	<b>6170</b>	<b>15.5</b>
Debt Relief	1822	12.2	2107	10.1	7162	24.2	10761	27.0
<b>Grand Total</b>	<b>3602</b>	<b>24.1</b>	<b>5154</b>	<b>24.7</b>	<b>11778</b>	<b>39.8</b>	<b>16931</b>	<b>42.5</b>

(1) Excluding debt relief and general budget support to avoid double counting.

Source: ADB using OECD-DAC CRS online database

<sup>9</sup> The term "policy-based loans" usually refers to both policy-based loans and policy-based grants. Such loans include budget support and balance of payment support. Sector programs comprise contributions to carry out wide-ranging development plans in a defined sector. Assistance is made available in cash and or in kind, with or without restrictions on the specific use of the funds, but on the condition that the recipient executes a development plan in favour of the sector concerned.

- 2.8 The Bank Group's assistance provided as general budget and sector program support varied between 8 and 17 percent over the 1996-2007 period. The Bank Group was also among the first multilateral creditors to participate in the HIPC Initiative and the MDRI: so far, it has mobilized over US\$ 4.3 billion in debt relief assistance for 33 regional member countries (RMCs) eligible for assistance under the HIPC Initiative and over US\$ 6.5 billion for debt cancellations under the MDRI.

### ***Development Financing from Non-DAC Bilateral Donors and Private Donors***

- 2.9 One of the key changes in the aid architecture in recent years is that ODA and non-concessional financing flows from non-DAC bilateral donors have been on the rise, although the paucity of data makes it difficult to estimate the precise volume and terms of assistance.<sup>10</sup> While non-DAC donors are diverse and vary in foreign aid policy terms, most fall into one of three broad categories: (i) Organisation for Economic Co-operation and Development (OECD) non-DAC countries, some of which are members of the European Union and some of which are not; (ii) non-OECD European Union members; and (iii) countries that are neither OECD nor European Union members.<sup>11</sup>
- 2.10 Among non-DAC donors reporting to the DAC database, Middle East countries (Kuwait, Saudi Arabia and the United Arab Emirates) provided annual ODA of US\$ 1.5 to 2.5 billion between 2002 and 2007, while aid from OECD non-DAC donors increased from less than US\$ 500 million in 2001 to over US\$ 2 billion in 2007<sup>12</sup>. The three Middle Eastern donors provide a relatively sizeable proportion of their aid to ADF-eligible countries. The 2008 admission of Turkey as a State Participant in the ADF and Brazil's augmenting of contributions to the ADF are further evidence of non-DAC countries' growing interest in providing ODA to Africa.
- 2.11 China is an increasingly important player in development financing for some African countries.<sup>13</sup> China's annual ODA to Africa is estimated at between US\$ 1.4 billion and US\$ 2.7 billion per year, while non-concessional flows are estimated at US\$ 8.5 billion per year. Chinese financing flows to Africa are mainly channeled through China's Export-Import Bank and the China-Africa Development Fund. This fund, which operates as a sovereign wealth fund, was originally endowed with resources of US\$ 3 billion but was supplemented by an additional US\$ 2 billion in March 2009 to be invested primarily in infrastructure, industrial and agricultural projects within the next 2 years. China's financing flows are mainly directed to resource-rich countries, but China is also a State Participant and a growing contributor to ADF and the International Development Association. One of the main challenges raised by the increased non-concessional financing flows from China to African low-income countries is their impact on the debt sustainability of these countries. If unchecked, accumulation of debt incurred on non-concessional financing terms could jeopardize the positive effects and/or the intended benefits of debt relief provided to countries under the HIPC Initiative and the MDRI. The Bretton Woods Institutions and the Bank Group are actively engaging with China and these countries to discuss financing options that would not negatively affect borrowers' long-term debt sustainability. Debt sustainability issues are further discussed in the Eleventh General Replenishment of the African Development Fund (ADF-11) Mid-Term Review paper, "Update on ADF Activities in Support of Debt Sustainability".<sup>14</sup>

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<sup>10</sup> The general trend is shown in Annex VII using limited data from countries that report to OECD-DAC database. This accounts only for a small fraction of total aid flows from this group because some of the larger donors, such as China, do not report to the DAC database.

<sup>11</sup> Krageland, P. 2008. The Return of Non-DAC Donors: The New Prospect for African Development. *Development Policy Review*. 26 (5). Overseas Development Institute. The breakdown of countries by each category is provided in Annex I.

<sup>12</sup> Kharas, H. 2007. Trends and Issues in Development Aid. *Working Paper 1*. Wolfensohn Center for Development at Brookings.

<sup>13</sup> China's foreign aid is difficult to quantify as the Chinese Government does not release or explain Chinese foreign aid statistics. In addition, China's foreign aid does not appear to be accounted for in academic literature on foreign aid.

<sup>14</sup> It should be noted that in the context of the Forum on China-Africa Cooperation, China announced additional debt reductions or cancellations as well as multi-annual lines of credit for up to 3 years.

- 2.12 Similar to ODA trends, development aid flows from private foundations and corporate donors have grown substantially over the last decade.<sup>15</sup> While there are wide variations in the type, amounts and modalities of aid provided by private donors, the trend suggests that resources from larger foundations are generally earmarked for specific sectors or causes and are disbursed through multiple channels, including specialized multilateral agencies and NGOs. In contrast, resources from individuals or relatively smaller foundations tend to fund community-level projects or programs managed by smaller organizations. Finally, the social entrepreneurship and public-private partnership models of development assistance are gaining increasing favor among newly emerging private donors, opening up opportunities for the Bank Group to enhance its engagement with private donors in order to leverage additional resources (e.g. cofinancing) and improve donor coordination and harmonization.
- 2.13 Emerging bilateral and private donors bring with them opportunities that go beyond the provision of more resources: for example, greater trade flows and economic ties, technological innovation, and policy influence across social, political and economic spheres. One of the key issues highlighted in the Accra Agenda for Action was the need to seriously and systematically recognize the role of non-traditional donors and the different approaches they offer so as to enhance stronger South-to-South and trilateral partnerships. The ADB is actively developing its role as a partner of choice for emerging donors at operational levels and has recently started a research initiative on China-Africa economic relations that is expected to make valuable contributions towards enhancing institutional knowledge and furnishing evidence for informed engagement.

#### ***Implications for Aid Effectiveness***

- 2.14 The existence of a large number of bilateral and multilateral agencies<sup>16</sup>, combined with the numerous nongovernmental development actors that operate in most recipient countries, has led to the excessive proliferation of donors and donor channels. For example, the number of donors (DAC bilateral and multilateral) in each of the 40 ADF-eligible countries averaged 26 in the 2005-2007 period and of these 26, an average of only 9 donors provided 90% of country programmable aid. The average per country amount of each donor's participation was US\$ 17.4 million.<sup>17</sup> Furthermore, a plethora of donors tend to finance several small-size projects. As noted by the OECD in 2005, 85 percent of the 60,000 donor-funded projects under implementation in developing countries at the time were valued at less than US\$1 million each.<sup>18</sup> This proliferation and fragmentation imposes significant transaction costs and aid management challenges for donors and recipient countries alike, particularly with regard to the quality, effectiveness and predictability of development aid.<sup>19</sup>
- 2.15 In an attempt to address these challenges, a number of far-reaching initiatives have taken place. In 2002, the Monterrey Consensus produced the first comprehensive roadmap for development financing, focusing not only on traditional foreign aid flows (ODA) but also on broader financing approaches that consider developing countries' own needs and capacities and foster opportunities for economic growth.<sup>20</sup> Since Monterrey, several measures have been taken at the highest levels of donor and partner country leadership to deepen

<sup>15</sup> There is no systematic recording that captures aggregate data on global private aid flows. .

<sup>16</sup> According to a list of agencies compiled by the World Bank, over 236 multilateral agencies and special funds operate in developing countries. At least 85 percent of these agencies and funds are located in Africa, where they outnumber donors and recipient countries combined.

<sup>17</sup> By contrast, in the 37 countries where ADF had provided aid in 2005-2007, its average country programmable aid was US\$ 27 million. See OECD-DAC. 2008. *Scaling Up: Aid Fragmentation, Aid Allocation and Aid Predictability*. Report of 2008 Survey of Aid Allocation Policies and Indicative Forward-Spending Plans. OECD.

<sup>18</sup> Comment Piece by Johnston, D. and Richard, M. February/March 2005. *Doing Aid Better*. OECD.

<sup>19</sup> The relationship between donor proliferation and aid fragmentation is discussed in an empirical study by Acharya et al. which measured the level of fragmentation of aid at the country level and showed that the degree of aid fragmentation is related to the level of donor (or donor channel) proliferation. For instance, of the 2,349 aid events (transfers of money from donors to recipients) analyzed in the study, 33 percent (773 events) were for less than US\$ 500,000 each. See Acharya, A., Fuzzo de Lima, A., and Moore, M. 2004 *Aid Proliferation: how responsible are donors?* *IDS Working paper 214*. Institute of Development Studies. Brighton.

<sup>20</sup> Five pillars of development financing underpin the Monterrey Consensus: mobilizing domestic resources; attracting international flows; promoting international trade as an engine for development; espousing sustainable debt financing and external debt relief; and enhancing the coherence and consistency of the international monetary, financial and trading systems.

commitments to address systemic challenges in global economic and aid systems. Measurable targets to improve aid effectiveness have been adopted and reaffirmed (the Rome High Level Forum on Harmonization in 2003; the Paris and Accra High Level Forums on Aid Effectiveness in 2005 and 2008) and multilateral development financiers have committed to measuring and accounting for the impacts of their assistance (the Marrakech Roundtable on Managing for Development Results in 2004). So while implementation challenges persist, donors' and partners' political commitments to adopt common frameworks and streamline processes have signaled a move in the right direction and are providing the much needed impetus for shaping a more coherent aid architecture.

- 2.16 The ADB is a key player in the global effort to improve development financing and aid effectiveness. In addition to its role as a member of the DAC Working Party on Aid Effectiveness, it led the coordination and facilitation of the Kigali and Accra meetings and continues to represent the African voice in the global fora on the implementation and monitoring of progress of the Paris Declaration.
- 2.17 With regard to its own institutional effectiveness, the ADB has adopted a set of key institutional and business process reforms to foster selectivity, harmonization with other donors and alignment with country priorities; to enhance its delivery capacity; and to instill a results culture throughout the institution. For more information on these issues, refer to the ADF-11 Mid-Term Review papers entitled "Impact of Institutional and Business Process Reforms on Programming and Delivery", "Progress in Implementing the ADF-11 Results Measurement Framework" and "Implementing the Paris Declaration Commitments and Building on the Accra Agenda for Action". While many of these reforms are in the early phases of implementation, recent independent assessments of the Bank Group have noted positive trends towards greater development effectiveness and have started to measure the relevant outcomes.<sup>21</sup>

***Impact of the Financial Crisis on Africa's Development Financing Needs and Progress Towards the Millennium Development Goals***

- 2.18 Prior to the onset of the financial crisis, most African countries had made impressive progress in stabilizing their macroeconomic and external debt conditions. During the last 5 years, Africa enjoyed high growth rates (averaging over 5 percent) and a number of countries achieved macroeconomic stability, as reflected in low inflation and sustainable debt levels. Improved economic policies, market-oriented reforms, and a reduction in the number of armed conflicts contributed to strong performance. Rapid growth was facilitated by higher volumes of trade and exports, debt relief assistance under different initiatives, and increasing aid flows and private capital inflows.
- 2.19 The ongoing global crisis threatens to undermine these recent gains. African governments do not have adequate financing capacity to cushion populations against the impact of the crisis and protect the gains in growth and poverty reduction recorded in past years. Analysis of the impact and cost of the crisis demonstrate that even full delivery of previously pledged external assistance will not be sufficient to bridge Africa's growing financing gap. Under the conservative scenario of maintaining growth at the pre-crisis level, the estimated annual resource gap is estimated between US\$ 50 billion and US\$ 60 billion in the coming years.<sup>22</sup> In addition, based on pre-crisis data, the continent would need an infusion of about US\$ 72 billion per year in external public financing to achieve the Millennium Development Goals.<sup>23</sup>
- 2.20 Despite these needs, the 2009 DAC Survey on Aid Predictability shows that with an average annual aid increase of 5 percent or less in real terms compared to 2004, donors are already lagging far behind the 11 percent annual increase required to achieve the Gleneagles target of doubling aid to Africa from US\$ 25 billion to US\$ 50 billion per year by 2010. In the

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<sup>21</sup> See in particular Multilateral Organisations Performance Assessment Network (MOPAN). 2007. *The Annual MOPAN Survey 2007; Donor Perceptions of Multilateral Partnership Behaviour at Country Level; Managing for Development Results*. 2008. *Multilateral Development Banks' Common Performance Assessment System (COMPAS) 2008 Report*; and Department of International Development (DFID). 2007. *African Development Bank Development Effectiveness Summary*.

<sup>22</sup> Based on ADB internal estimates.

<sup>23</sup> .MDG Africa Steering Group. June 2008. *Achieving the Millennium Development Goals in Africa*.

aftermath of the financial crisis, DAC projections already indicate that some donors have decreased their aid and that others are unlikely to meet their commitments. A DAC High Level Meeting was convened in May 2009 and an Action Plan approved in which donors reaffirmed their intention to deliver on their previous commitments on development financing and aid effectiveness while enhancing support for integrating crisis management with long-term growth and the Millennium Development Goals. The ADB has been actively advocating on behalf of its RMCs and will continue to work closely with partners to monitor and facilitate the delivery of donor commitments.

### **3. ADF: The Financier and Voice of Africa**

- 3.1 The High Level Panel established to consider the future of the ADB and its role in ensuring Africa's success delivered a clear message: Africa needs a strong development bank and the African Development Bank should be that bank. The panel considered that the ADB has the right credentials and a uniquely African experience and perspective as a consequence of its exclusive focus on Africa's development, its integrated operations, its direct public and private sector lending, its elected African president and its predominantly African shareholders and staff.<sup>24</sup>
- 3.2 Under the leadership of President Kaberuka, the Bank Group has engaged in a major repositioning and institutional capacity-building exercise with a view to becoming Africa's strong development bank, its lead development finance institution in a number of strategic priority areas, its voice in domestic and international fora and its preferred knowledge institution. This new strategy, which was endorsed by the Bank's shareholders in the Bank Group Medium-Term Strategy for 2008-2012 and by ADF Deputies in the ADF-11 Deputies' Report, is already starting to show concrete results despite being in the early implementation phase. For ADF, this strategy is based on greater selectivity in three key sectors (infrastructure, governance and regional integration), enhanced engagement in fragile states and a strong focus on synergies with the private sector.
- 3.3 With its continental mandate and its reliance on the country model and the Performance-Based Allocation system, one of ADF's distinguishing features is its ability to finance all ADF countries on the basis of their needs and country priorities while fostering a strong link between resource allocation and performance. The reliance on the country model also enables the Fund to adapt quickly to the changing needs of its client countries, particularly in the face of new crises, as shown by its recent responses to both the food crisis and the financial crisis.
- 3.4 This ambitious strategy would not be credible without the capacity to deliver faster and larger volumes of assistance with a greater focus on quality and results. The Bank Group thus engaged in 2006 in an institutional and business process reform program that is moving forward aggressively and is starting to show results. For more discussion on the status of implementation of the Bank Group's reform strategy, see the ADF-11 Mid-Term Review papers, "Progress in Implementing the ADF-11 Results Measurement framework" and "Impact of Institutional and Business Process Reforms on Programming and Delivery."

#### ***The Lead Donor in Infrastructure, Governance, Regional Integration and Fragile States***

- 3.5 Over the past 40 years, the ADF's strategic and sector focus has not only moved toward greater selectivity but has also shifted from the agriculture and social sectors to infrastructure, governance and regional integration, areas that are either relatively under-funded and/or are where the Fund's resources add the most value. This shift, which started in 1995, has dramatically increased since 2005-2006 (Figure 4). According to recent OECD analyses, the Bank is active in significantly fewer sectors by country (3.5 sectors on average) than are

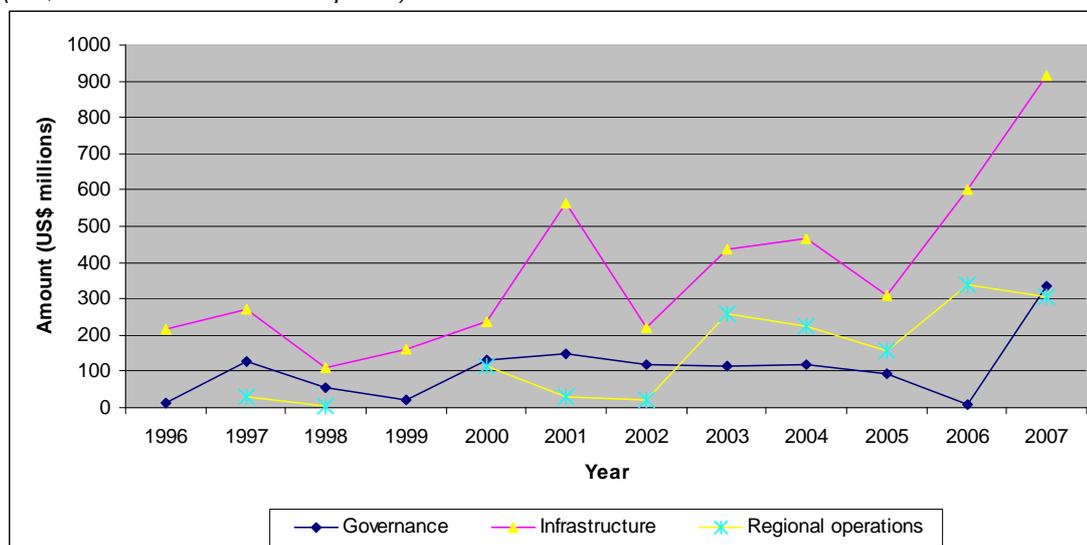
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<sup>24</sup> The High Level Panel for the African Development Bank. 2007. *Investing in Africa's Future: The ADB in the 21<sup>st</sup> century*. Report of the High Level Panel. This message was further reinforced by the findings of a 2007 Overseas Development Institute stakeholder survey that showed respondents' preference of ADB over other similar institutions as a multilateral disbursement channel and the strong sense of ownership among ADB's clients. See S. Bural. September 2007. *Multilateral donors: stakeholder perception revealed*. Overseas Development Institute Project Briefing.

other donors while systematically positioning itself as one of the top country-level players in its areas of intervention.<sup>25</sup>

**Figure 4: ADF Commitments to Governance, Infrastructure and Regional Operations, 1995-2007**

(US\$ millions in 2007 constant prices)



Source: ADB using OECD-DAC CRS online database

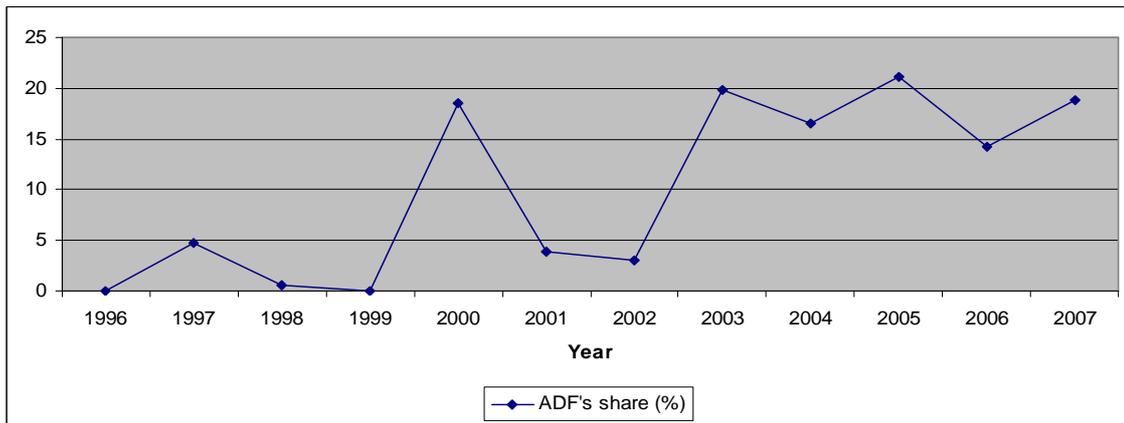
- 3.6 Infrastructure has become the Fund's largest area of intervention since ADF-10. ADF's development assistance for infrastructure represents 13 percent of all ODA to ADF countries over the 2005-2007 period. Support for governance (multisector) projects is ADF's second largest area of intervention. In the first year of the implementation of ADF-11, infrastructure and governance projects accounted for 83.3 percent of all ADF approvals.
- 3.7 Among the Fund's strategic priorities, the promotion of regional integration plays a special role: it is one of the constitutional *raison d'être* of the Fund.<sup>26</sup> Consistent with its mandate, the Fund is the lead donor for regional integration and regional public goods financing in Africa, accounting for up to 21 percent of total ODA commitments for regional operations<sup>27</sup> since 2003 (Figure 5). The Fund has developed unique expertise in complex cross-border transactions and associated institutional and capacity-building measures. Under ADF-11, ADF scaled up its support by adopting a new regional integration strategy. A total of 17.5 percent of ADF resources (approximately UA 1 billion) in addition to country contributions were set aside for regional operations for the 2008-2010 period. Financing for regional operations in ADF-11 is accordingly expected to reach approximately US\$ 1.7 billion during 2008-2010, i.e., more than the total financing for the previous twelve years (US\$ 1.4 billion).

<sup>25</sup> During the 2005-2007 period, the Bank was among the top donors in its sectors of intervention at the country level in 90 percent of cases. See OECD-DAC. 2008. *Scaling Up: Aid Fragmentation, Aid Allocation and Aid Predictability*. Report of 2008 Survey of Aid Allocation Policies and Indicative Forward-Spending Plans. OECD.

<sup>26</sup> See in particular Article 2 of the Agreement Establishing the African Development Fund.

<sup>27</sup> A regional operation is defined as an operation involving at least two countries or an operation in support of a regional or sub-regional institution.

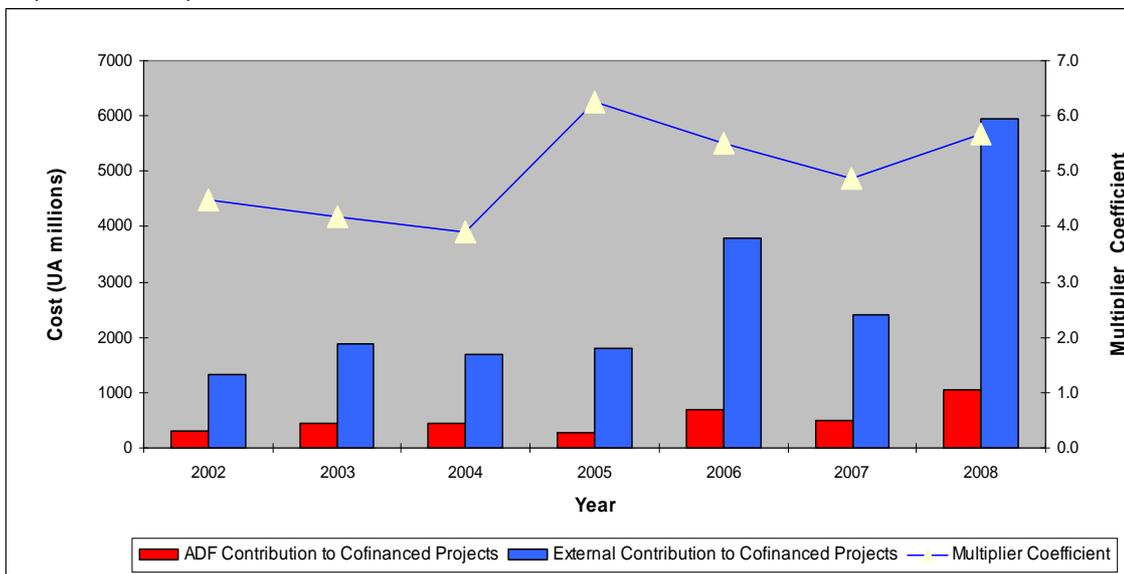
**Figure 5: ADF's Share of Regional Operations as a Percentage of Total ODA, 1995-2007**



Source: using OECD-DAC CRS online database

3.8 Given its regional character and its leading role in regional operations, the Fund has also become an effective catalyst for mobilizing public and private investments for multi-country development projects that require large initial investments and complex coordination mechanisms. In this way, ADF helps to fill the huge financing gap in cross-border infrastructure investments. Since 2002, approximately UA 3.7 billion of ADF financing has been matched by over UA 18 billion from cofinanciers. On average, ADF has been able to leverage UA 5 for every UA 1 it invests in cofinanced projects (Figure 6).

**Figure 6: Trends in Cofinanced Projects, 2002-2008**  
(In UA millions)



Source: ADB

- 3.9 Fragile and post-conflict states present a particular challenge in Africa. They require intensive dialogue, country knowledge and strong relationships built on mutual confidence and trust. The Bank Group has played a pioneering role in designing and introducing innovative new instruments to support Africa's fragile states. The Bank's arrears clearance mechanism under the Post-Conflict Countries Facility was a key innovation for accelerating re-engagement with post-conflict countries and systematically engaging other donors and post-conflict countries in the implementation framework. Since 2008, the Fund has significantly stepped up its support to fragile states with the creation of the Fragile States Facility (FSF), whose resources represent 7.5 percent of ADF-11 allocable resources. Besides arrears clearance grants (Pillar II of the FSF), the FSF provides eligible fragile states with additional resources that allow them to approximately triple their Performance-Based Allocation (Pillar I). It also provides targeted support for capacity building (Pillar III) to help these states jump-start their reconstruction efforts. Another key innovation of the Bank Group in support of fragile states was the establishment in 2009 of the African Legal Support Facility, which finances legal support to ADF countries in dealing with vulture funds—mostly in the context of HIPC Initiative and MDRI debt relief—or negotiating complex transactions with commercial partners. The African Legal Support Facility has received considerable support and focus from both donor countries and beneficiary countries.

#### ***Africa's Voice and Knowledge Platform on Development Issues***

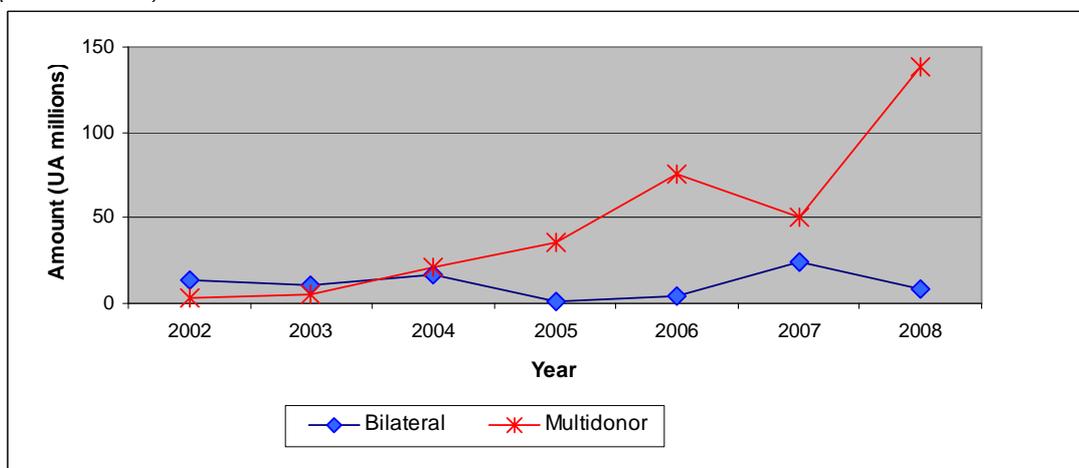
- 3.10 The Bank Group structure provides its RMCs with a unique and valued voice. The Bank's African ownership, its elected African President and its predominantly African staff endow it with legitimacy and the ability to play the role of an honest broker on issues that affect the continent's development. This role is enhanced by the Bank Group's growing on-the-ground presence in recent years and its fast expanding knowledge activities. As a result, the Bank Group has strengthened its role as the leading voice on regional issues and the representative of African countries in international fora. The Bank uses this niche to advance the voice and interests of African countries in the international discourse on global issues affecting the continent, most recently the global financial and economic crisis.
- 3.11 This niche earned the Bank the task of coordinating the position of African countries in preparation for the 2008 Accra Summit on development effectiveness, which led to the Accra Agenda for Action. It has also enabled the Bank to take the lead in coordinating Africa's responses to the global financial and economic crisis, working closely with other pan-African institutions such as the African Union Commission and the United Nations Economic Commission for Africa. In response to the financial crisis, the Bank hosted a meeting of African Ministers of Finance and Central Bank Governors in Tunis in November 2008, which gave rise to the Committee of Ten Ministers of Finance and Central Bank Governors (the C-10) set up to monitor the crisis and coordinate Africa's response at various levels. The C-10 has since met in Cape Town in January 2009, in Dar Es Salaam in March 2009 and in Abuja in July 2009. The C-10 meetings in Cape Town and Dar Es Salaam provided valuable inputs into defining Africa's position at the G-20 Summit in April 2009 in London. The C-10 meeting held in Abuja was a platform for refining Africa's position going into the next G-20 Summit scheduled for September 2009 in Pittsburgh, the United States.
- 3.12 The Bank's unique structure geographic reach and strategic orientation also make it the partner of choice for a broad range of special African mandates and initiatives relevant for ADF countries. In addition to its regular collaboration with the African Union and the United Nations Economic Commission for Africa on all major development issues for the continent, the Bank Group has been given lead mandates by the New Partnership for Africa's Development (NEPAD) in its main areas of focus. As regards governance issues, the Bank Group is in charge of Corporate Governance for the implementation of the African Peer Review Mechanism. As for infrastructure, the Bank Group leads the implementation of NEPAD's Short-Term Action Plan, leads the Program for Infrastructure Development in Africa and hosts and manages the NEPAD Infrastructure Project Preparation Facility. The Bank also hosts the Secretariat for the Infrastructure Consortium for Africa. In terms of regional integration, the Bank is an active contributor to the ongoing African Union initiative to rationalize regional economic communities. Some of the key initiatives launched by the Bank Group or entrusted to it by donors or African organizations are described in Annex VIII.

3.13 To strengthen its voice as well as its ability to provide valuable knowledge services to its RMCs, the Bank Group has engaged in a large-scale knowledge management program to become the continent’s premier knowledge platform. The Bank Group’s Knowledge Management Strategy was approved in 2008 and has been integrated in the Bank’s Medium-Term Strategy for 2008-2012 as a means to strengthen the Bank’s visibility in knowledge activities and reinforce its intellectual voice. The Bank’s knowledge activities are focused on conducting high quality research to generate a deeper understanding of the development challenges facing the continent, and leveraging resources and partnerships to support knowledge generation, dissemination and utilization in Bank policies and programs. Besides its Data Platform, which provides easy online access to a wide range of development data on RMCs, and flagship publications such as “African Economic Outlook”, “African Development Report”, “African Competitiveness Report” and “African Development Review”, the Bank Group plays a key role in capacity building for RMC government officials through its training programs on policy processes, macroeconomic management and development effectiveness in RMCs. The Bank also plays a leading role in building up the statistical capacity of its RMCs for Millennium Development Goal monitoring and results measurement. Results measurement has also been mainstreamed into the Bank’s own operations through institutional support activities and the integration of statistical data-generating activities into the Bank’s country programming (Results-Based Country Strategy Papers), its project cycle and its policy-based lending.

**The Continent’s Resource Mobilization Platform**

3.14 The Bank Group also plays an important role as a resource mobilization platform for the continent. It has significantly increased its resource mobilization capacity over past years, having mobilized more than ten times as many trust fund resources in 2002 as in 2008 (Figure 7). This increase is a clear indication of the growing confidence it enjoys from donors.

**Figure 7: ADB Trust Fund Resource Mobilization Trends, 2002-2008**  
(In UA millions)



Source: ADB

3.15 At the bilateral level, more than 20 trust funds<sup>28</sup> are managed by the Bank Group and provide critical resources for upstream project cycle activities, mainly in ADF countries. These activities include analysis, pre-feasibility studies, and capacity building, essentially in the water and sanitation, agriculture, and governance sectors. With the 2006 Technical Cooperation Fund Reform Policy, the Bank has increased its trust fund management effectiveness and efficiency by further simplifying approval processes and procedures and aligning its policies and processes with those of other multilateral development banks. Furthermore, all new trust fund resources have been untied since January 2007, allowing the Bank greater flexibility and efficiency in its use of trust funds.

<sup>28</sup> With funds from Austria, Belgium, Belgium (Walloon Region), Canada, China, Denmark, Finland, France, India, Italy, Japan, Korea, the Netherlands, Nigeria, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

- 3.16 At the multilateral level, the Bank Group enjoys key mandates from donors in the water and sanitation sector in the form of four large thematic multidonor trust funds for ADF countries that total UA 179 million (Box 1). Consistent with its focus and mandate on infrastructure and regional integration, the Bank Group also plays a key role in supporting river basin organizations as driving forces of sustainable integrated water resources management across national boundaries. Besides conducting capacity-building activities, strengthening water governance, improving water knowledge and investing in pilot innovative infrastructure projects carried out by the African Water Facility (AWF), the Fund has also pioneered new approaches in shared water resources and ecosystem management with the 2008 creation of the Congo Basin Forest Fund with initial funding of UA 110.42 million (Box 2).

**Box 1: Bank Group Initiatives in Water Supply and Sanitation**

In addition to urban water supply and sanitation activities financed by the ADF or the ADB, the Bank's strategy in the water sector is underpinned by four main complementary initiatives: the Rural Water Supply and Sanitation Initiative (RWSSI), the African Water facility (AWF), NEPAD Water and Sanitation Programme (NEPAD WSP) and the Water Partnership Program (WPP). The aggregate resources of these four initiatives total UA 179 million.

With mobilized resources of UA 1.39 billion, the RWSSI is the Bank's most important initiative for addressing water supply and sanitation-related Millennium Development Goals. Under the RWSSI, the Bank Group aims to help RMCs achieve 80 percent rural water and sanitation coverage, give 277 million people access to clean water and provide 295 million people with proper sanitation facilities by 2015. The projected cost of these activities is UA 14.2 billion. The Bank is committed to contributing 30 percent of project costs itself and raising 50 percent from donors and 20 percent from RMC governments and communities. So far, the Bank has contributed UA 565.8 million.

With commitments of UA 110 million since its inception in 2005, the AWF is a fast-track facility that finances smaller upstream projects with the aim of catalyzing additional funding. AWF projects focus on strengthening the enabling environment of the sector through policy, strategy and program development, capacity building, national and transboundary water resources management and bankable project development. The AWF also contributes to the Millennium Development Goals by financing innovative pilot investments.

Finally, NEPAD WSP supports transboundary water resources management and the WPP builds Bank and RMC capacity for integrated water resources management.

The main thrust of the Bank's interventions in the urban and peri-urban areas has been (i) to make more efficient use of existing infrastructure through rehabilitation in order to reduce lost and unaccounted-for water and expand water supply and sanitation schemes to reach the poor in peri-urban areas; (ii) to support sector reforms; and (iii) to improve utility management, billing and the collection of revenues.

**ACHIEVEMENTS:** Between 1996 and 2007, the Fund approved 92 water sector projects in ADF countries for a total cost of UA 2.1 billion, of which the Fund's contribution was UA 931 million. In addition, 26 of these projects have been financed by AWF resources for a total contribution of UA 19 million.

- 3.17 In 2002, the Nordic Trust Fund on Governance (NTFG) was established within the Bank by Denmark, Finland, Norway, and Sweden. The NTFG provided the Bank with financial resources to support good governance activities consistent within its overarching objective of poverty reduction. To date, the NTFG has financed over 38 governance programs. The NTFG is fully committed and the Bank is negotiating for a new multidonor governance trust fund.

## Box 2: The Congo Basin Forest Fund

The Congo Basin rainforest harbors biodiversity of global importance and plays a vital role in regulating the regional climate and storing carbon as standing timber. However, logging, shifting agriculture, population growth and the oil and mining industries are putting increased pressure on the Congo Basin forests, which are disappearing at the rate of 0.6 percent a year. The Food and Agriculture Organization has estimated total annual deforestation in the region at around 934,000 hectares.

In February 2008, the Bank Group, in partnership with the Central Africa Forest Commission and the United Kingdom, organized an international conference in Tunis on financing mechanisms for the sustainable management of Congo Basin forests. The Tunis conference, which brought together representatives of technical and financial partners, Central African countries, and civil society, was a critical moment in the decision to create a special fund: the Congo Basin Forest Fund (CBFF).

The CBFF was launched in June 2008 with initial contributions of US\$ 200 million from Norway and the United Kingdom. The CBFF checks deforestation by building capacity in local populations and in institutions in the Congo Basin and helps local communities develop lifestyles that will help preserve Congo Basin forests by financing relevant activities and projects, especially those that are in line with COMIFAC Convergence Plan. The CBFF works closely with other institutions and entities such as Central Africa countries, the COMIFAC Executive Secretariat, the Congo Basin Forest Partnership, donor agencies, civil society, NGOs and the private sector.

After playing a critical role in the creation of the CBFF, the Bank Group was chosen to host the fund at the Bank Group Temporary Relocation Agency in Tunis. Some CBFF staff will operate from Bank Group Field Offices in Cameroon and the Democratic Republic of Congo. The Bank Group's catalytic role in the creation of the CBFF is an illustration of its convening capacity in a very complex regional institutional environment. It is also an illustration of the Bank's commitment to environmental protection and regional public goods.

The Bank Group complemented its role as a convener and resource mobilizer for the CBFF with the ADF Board of Directors' March 2009 approval of a grant of US\$ 46.95 million to finance the Congo Basin's Ecosystems Conservation Support Programme.

### ***The Facilitator of Private Sector Activities in ADF Countries***

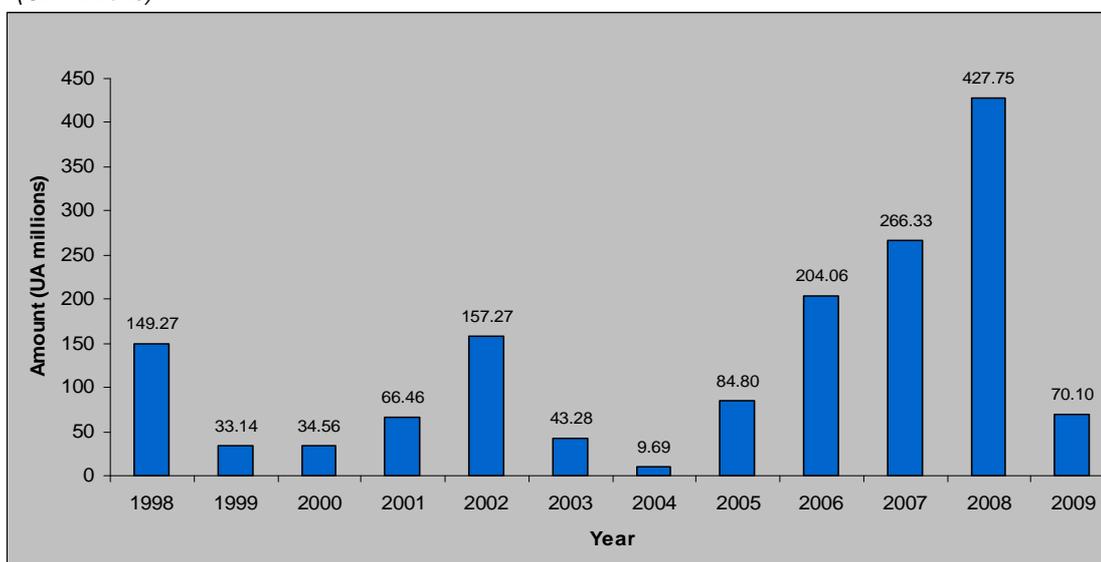
- 3.18 Private sector development is one of the key strategies pursued by ADF countries to spur economic growth and achieve sustainable development. There are a number of synergies between ADF activities and the development of the private sector, the first of which concerns the important role played by the Fund's core operational priorities. By investing in infrastructure and regional integration, by supporting the macroeconomic, regulatory and financial sector governance of ADF countries, and by advocating stronger anti-corruption frameworks and greater transparency, the Fund finances key pillars of an improved investment climate within ADF countries. In the infrastructure sector, combined ADB-ADF operations are being developed in the areas of power, transportation, telecommunications and water. Similarly, public-private partnerships in agriculture are being developed and linked to operations in the financial sector to promote small and medium enterprise. In addition, the private sector is drawing on facilities such as the Fund for African Private Sector Assistance to provide funds for critical preparatory work such as the hydropower projects development initiative of the Organization for the Development of the Gambia River Basin. The Fund is also working on an ADF guarantee proposal in order to further increase private sector infrastructure investments in ADF countries.
- 3.19 The Bank's private sector development activities in ADF countries are implemented either through direct operations that target a specific country or through multinational operations and support for equity funds with an exclusive or partial focus on ADF countries. As part of the Strategy Update for the Bank's Private Sector Operations 2008-2010, approved in January 2008,<sup>29</sup> the Bank decided to balance the distribution of its new financing operations between middle and low-income countries at 40 percent each, with the balance (20 percent) going to multinational operations.<sup>30</sup> In 2008, the Bank exceeded its target by approving 42

<sup>29</sup> African Development Bank. November 2007. *Strategy Update for the Bank's Private Sector Operations*, document ADB/BD/WP/2007/149.

<sup>30</sup> In the past, the Bank has tended to focus the bulk of its private sector operations in middle-income countries. This distribution was a reflection of the generally more conducive business environment in middle-income countries and lower inherent country risks.

percent (UA 428 million) of its private sector financing in ADF countries (Figure 8). The total share of the Bank's private sector operations in ADF countries in 2008, including multinational operations, is estimated at around 55 percent (UA 570 million). This sum had increased to about 60 percent (UA 233 million) in total private sector operations in the first semester of 2009 alone. It is expected that this percentage will be maintained, or slightly exceeded, throughout the year.

**Figure 8: Private Sector Approvals in ADF-Only Countries, January 1998-June 2009**  
(UA millions)



Source: ADB

### ***The Changing Role of The Fund in the Midst of Crisis***

- 3.20 The Bank Group has been at the forefront of coordinating efforts and mobilizing resources to respond quickly and effectively to emerging crises that affect the continent. This was particularly the case in 2008 and 2009 with the food and financial crises. As a flexible institution, the Bank Group is able to adapt its country pipelines rapidly to the changing needs of its client countries, restructure its portfolio by shifting resources to new sectors or instruments and develop new instruments and facilities designed to help ADF countries overcome the effect of these crises.
- 3.21 In response to the ongoing financial and economic crisis, the Bank Group demonstrated timely and decisive leadership by introducing an Emergency Liquidity Facility (US\$ 1.5 billion) designed to provide short-term resources to eligible clients facing unexpected needs resulting from the financial crisis. The Bank Group has also allocated US\$ 1 billion to the Trade Finance Initiative with the aim of introducing a new trade financing line of credit to commercial banks and financial institutions affected by the sudden shortage of capital for trade financing. For ADF countries, the Fund has taken a series of policy and process measures to increase its countercyclical role by significantly frontloading the use of ADF-11 resources, increasing the share of assistance provided through fast-disbursing instruments, and restructuring existing pipelines and portfolios. The Fund is also introducing a framework for the accelerated reallocation of cancelled resources to ADF countries during ADF-11. It is expected that this framework will result in the reallocation of up to UA 500 million during ADF-11. The Bank Group's private sector operations have increased their financial support to ADF countries through investments in equity funds targeting ADF countries, lines of credit to financial institutions, and loans, as reflected in paragraphs 3.18 and 3.19. For a fuller discussion of the role of the Fund in response to the financial crisis, see the ADF-11 MTR paper, "Progress Report on ADF Core Operational Priorities".

- 3.22 In the case of the food crisis, the Bank Group created the Africa Food Crisis Response (AFCR) initiative to provide accelerated support to RMCs affected by high food prices. The AFCR is expected to provide approximately UA 1.4 billion in the medium and long terms and UA 496.57 million<sup>31</sup> in the short term. Its goal is to reduce the vulnerability of populations in affected RMCs to high and unstable food prices and to boost sustainable agricultural growth and food security over the medium and long terms. Encouraging results have been documented in the preliminary impact assessment conducted for six countries that were among the first recipients of AFCR resources. These countries scaled up their agricultural activities and benefited from an overall increase in the production of cereals.<sup>32</sup>

#### **4. Conclusion**

- 4.1 The Bank Group has engaged in an ambitious repositioning exercise to increase its relevance and become the continent's lead development financing institution. The Bank Group of the 21<sup>st</sup> century will be a strong Bank, selective and focused, with a leading position in its areas of intervention, particularly regional integration. It will be Africa's lead knowledge institution, providing a clear and articulated voice for its RMCs. It will also be flexible and responsive to the changing needs of its members. The continuing support of the Bank's regional and non-regional member countries is essential for the Bank's efforts to bear fruit. Deputies are invited to take note of this report and provide their comments and views on the role of the Fund as outlined in this paper.

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<sup>31</sup> Of these sums, UA 415.61 million or 84 percent had been approved and UA 271.01 million had been disbursed as of end July 2009.

<sup>32</sup> See African Development Bank. April 2009. *Information Update on Bank Group Response to Africa Food Crisis, Revised Version*. ADB/BD/IF/2009/88/Rev.1 and ADB/BD/IF/2009/93/Rev.1.

## Annex I: Glossary

The **agriculture and agro-industry sector** includes cash crops, food crops, irrigation and drainage, forestry/plantation, livestock and fisheries. In addition, manufacturing, mining, quarrying, tourism and general industry sectors have been included given the relatively negligible ADF flow to industry and mining.

This paper adopts the **classification of countries by income** for low and middle-income countries used in the OECD database. Low-income countries include least developed countries (LDCs) and other low-income countries (OLICs). LDC is a United Nations classification and is not defined in terms of a per capita gross national income (GNI) threshold: LDCs are low-income states that are deemed structurally disadvantaged in their development process and are facing a higher than usual risk of failing to come out of poverty. OLICs are non-LDCs with per capita GNI below US\$ 825 in 2004; middle-income countries include lower and middle-income countries and territories with per capita GNI between US\$ 826 and US\$ 3,255 in 2004; and upper-middle income countries are countries with per capita GNI between US\$ 3,256 and US\$ 10,065 in 2005.

**Country programmable aid (CPA)**, or ODA for core development programs, as defined by DAC, refers to the amount of aid that can be programmed at the recipient country level. CPA is defined by exclusion: it consists of total gross ODA minus the following kinds of aid: aid that is unpredictable by nature (humanitarian aid and debt relief); aid that entails no cross-border flows (administrative cost, imputed students costs, promotion of development awareness, and research and refugees in donor countries); aid that does not form part of co-operation agreements between governments (food aid and aid from local government); and aid that is not country programmable by the donor (core funding of NGOs).

The **infrastructure sector** comprises transportation, water supply, energy and communication.

**Investment projects** comprise a) schemes to increase and/or improve the recipient's stock of physical capital and b) financing of the supply of goods and services in support of such schemes. (OECD Database)

**Multisector** comprises public sector management, private sector development, industrial imports, export promotion, and institutional support.

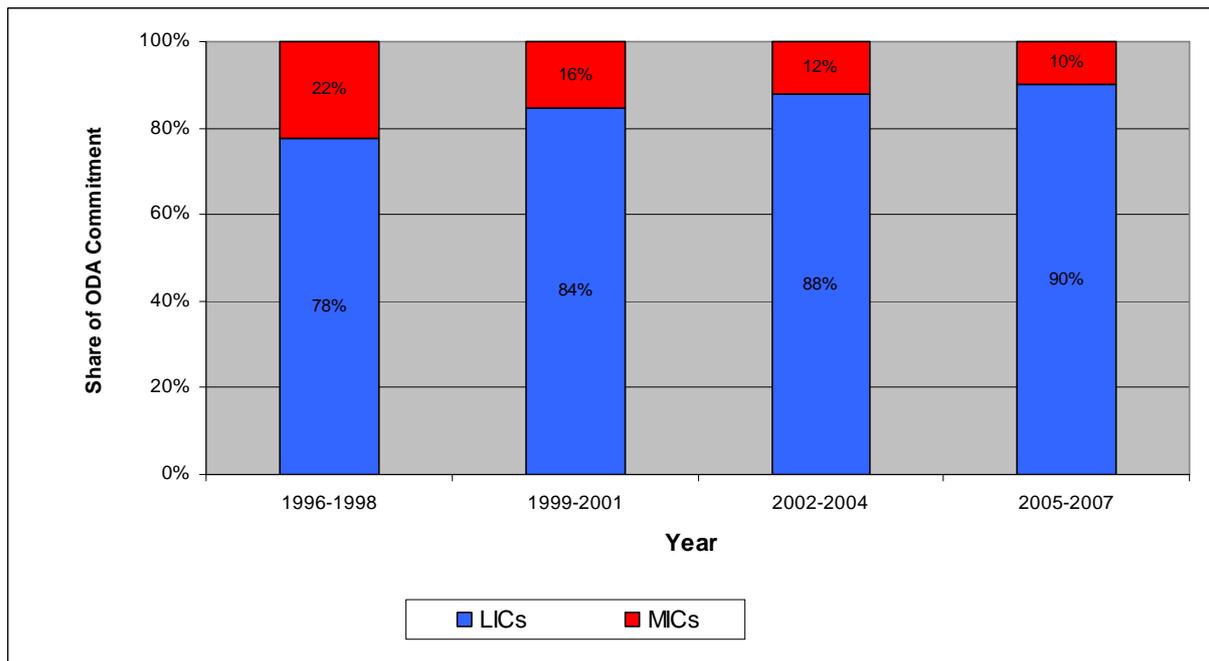
**Non-DAC donors fall in three broad categories:** (i) non-DAC OECD countries (Czech Republic, Hungary, Iceland, Korea, Mexico, Poland, Slovak Republic, and Turkey); ii) non-OECD European Union members (Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania, and Slovenia); iii) countries that are neither OECD nor European Union members (OPEC members Kuwait, Saudi Arabia, UAE and Venezuela; emerging markets such as China, India, Brazil, Thailand, Taiwan and South Africa; and other donors such as Cuba, Israel and Russia).

A **regional operation** is defined as an operation that involves at least two countries or an operation in support of a regional or subregional institution.

In the context of PBLs **Sector program aid** comprises contributions to carry out wide-ranging development plans in a defined sector such as agriculture, education, transportation, etc. Assistance is made available in cash and or in kind, with or without restriction on the specific use of the funds, but on the condition that the recipient executes a development plan in favor of the sector concerned. (OECD Database)

**Social sectors** comprise education, health, population and nutrition, gender equity, poverty alleviation and microfinance.

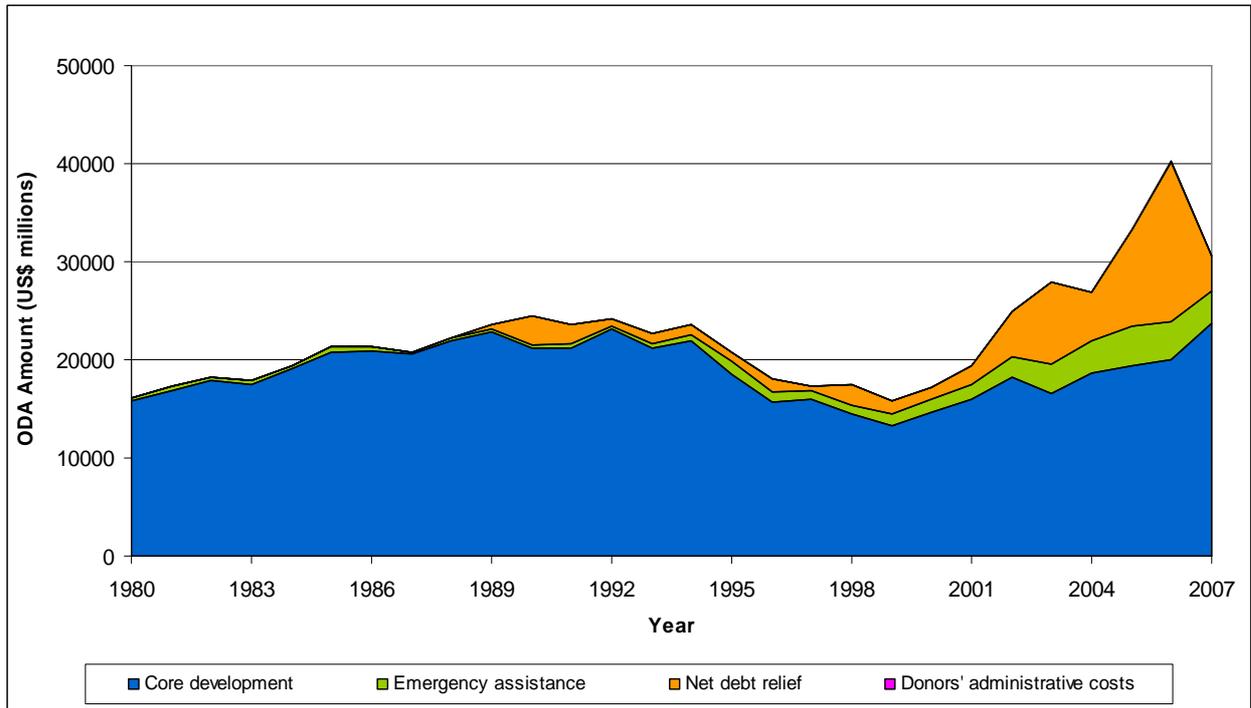
**Annex II: Percentage of African ODA Allocated to Low and Middle-Income Countries, 1996-2007**



*Source: ADB using OECD-DAC CRS online database*

### Annex III: ODA to ADF-Eligible Countries, 1980-2007

(Net disbursements, 2007 constant US dollars)



Source: ADB using OECD-DAC CRS online database

## Annex IV: Summary of ODA Flows from Bilateral and Multilateral Donors, 2002-2007

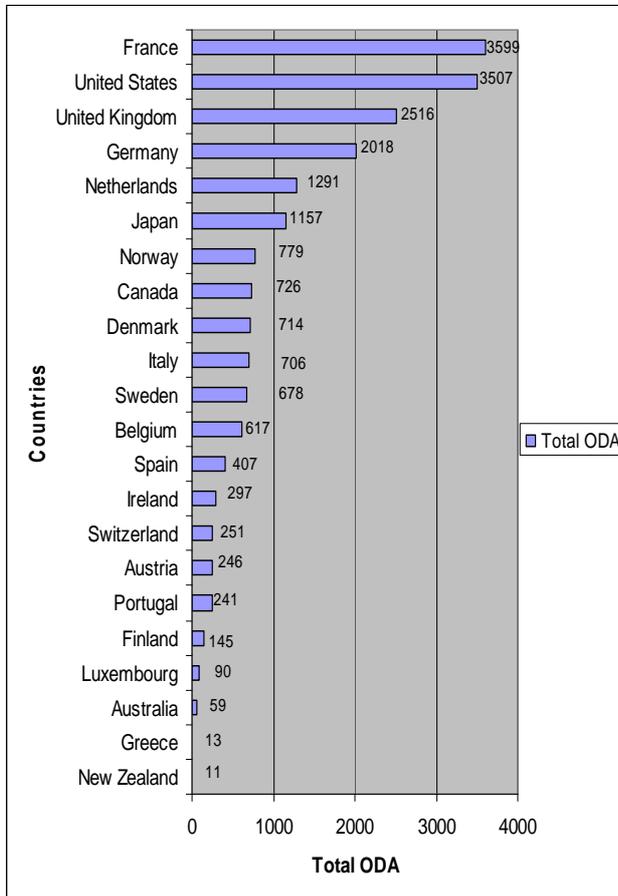
(Net disbursements, US\$ millions, 2007 constant prices)

DAC Donors	Total Bilateral ODA in US\$ millions 2002-2007	Total Multilateral ODA in US\$ millions 2002-2007	Share of Multilateral ODA (percent) 2002-2007
Australia	314	688	69%
Austria	1683	1066	39%
Belgium	4750	1713	27%
Canada	5599	1440	20%
Denmark	4212	2096	33%
Finland	1030	851	45%
France	24905	7337	23%
Germany	14567	9481	39%
Greece	104	472	82%
Ireland	2255	686	23%
Italy	5279	5508	51%
Japan	7344	6259	46%
Luxembourg	609	166	21%
Netherlands	8624	3574	29%
New Zealand	80	86	52%
Norway	4995	2224	31%
Portugal	1648	495	23%
Spain	2930	3243	53%
Sweden	4671	2842	38%
Switzerland	1634	1036	39%
United Kingdom	19070	6612	26%
United States	26011	6328	20%
<b>Non-DAC Donors</b>			
Czech Republic	33	0	0%
Hungary	30	0	0%
Iceland	55	0	0%
Korea	230	0	0%
Poland	132	0	0%
Slovak Republic	66	0	0%
Turkey	79	0	0%
Arab Countries	2172	0	0%
Other Donor Countries	222	0	0%

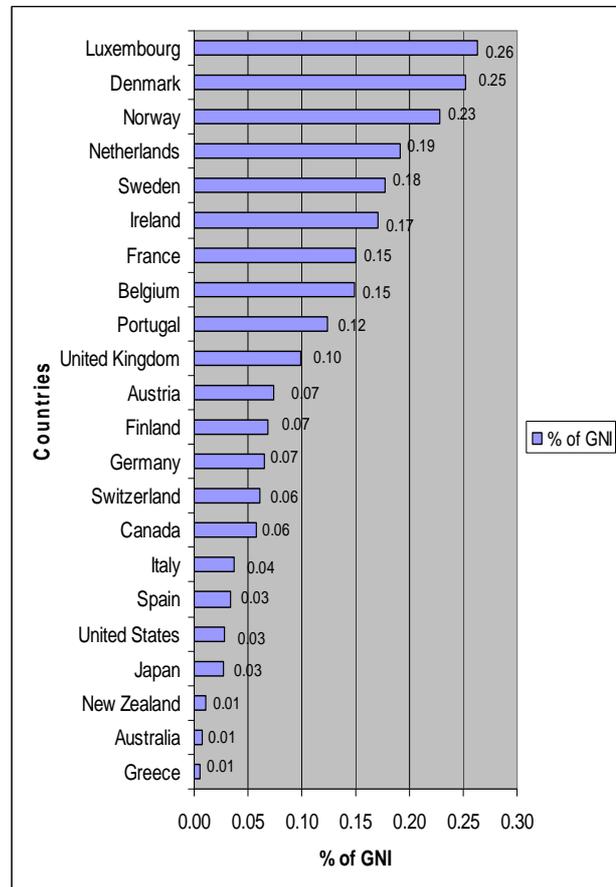
Source: ADB using OECD-DAC online database

## Annex V: Main Donors to Africa

**Figure V-1: Average Annual Net ODA from Bilateral Donors to African Countries, 1998-2007**  
(In US\$ million)



**Figure V-2: Average Annual Net Disbursement ODA from Bilateral Donors to African Countries, 1998-2007**  
(as a percentage of gross national income)



Source: ADB using OECD-DAC database

## Annex VI: Top Donors and Aid Recipients in Africa

**Table VI-1: Top 10 ODA Donors to Africa and Net Average Annual ODA Flows, 1998-2007**  
(US\$ millions, 2007 constant prices)

Bilateral			Multilateral		Overall	
Donors	Amount	% of GNI	Donors	Amount	Donors	Amount
France	3599	0.15	1.IDA	3476	1.France	3599
United States	3507	0.03	2.European Commission	3342	2.United States	3507
United Kingdom	2516	0.10	3.AfDF (African Dev. Fund)	831	3.IDA	3476
Germany	2018	0.07	4.Global Fund	314	4.European Commission	3342
Netherlands	1291	0.19	5.UNICEF	269	5.United Kingdom	2516
Japan	1157	0.03	6.WFP	250	6.Germany	2018
Norway	779	0.23	7.UNHCR	239	7.Netherlands	1291
Canada	726	0.06	8.UNDP	237	8.Japan	1157
Denmark	714	0.25	9.IMF (SAF,ESAF,PRGF)	191	9.AfDF	831
Italy	706	0.04	10.UNTA	176	10.Norway	779

**Table VI-2: ADF Share of ODA Commitments, 2003-2007**

ADF's Share of Commitment	Country	Number of Countries
10%<20%	Benin	1
5%<10%	Burkina Faso, Djibouti, Ethiopia, Gambia, Ghana, Guinea Bissau, Kenya, Lesotho, Madagascar, Mali, Mauritania, Niger, Rwanda, Sierra Leone, Tanzania, Uganda	16
<5%	Angola, Burundi, Cameroon, Cape Verde, Central Africa Rep., Chad, Comoros, Congo Dem.Rep., Congo Rep., Côte d'Ivoire, Eritrea, Guinea, Liberia, Malawi, Mozambique, Nigeria, Sao Tome & Principe, Senegal, Somalia, Sudan, Togo, Zambia, Zimbabwe	23

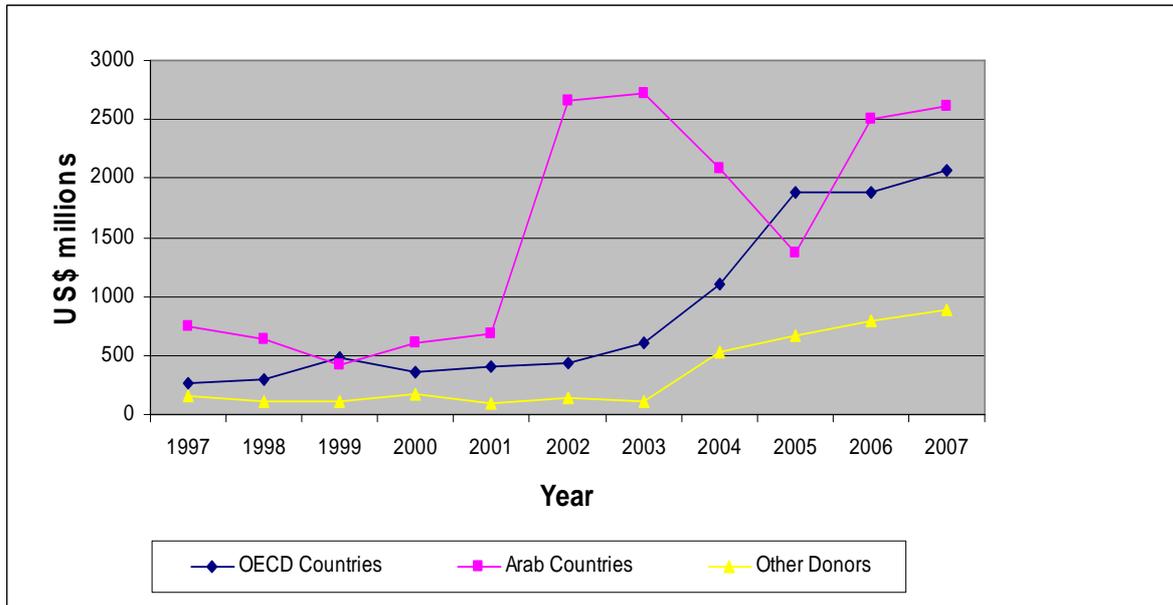
**Table VI-3: Top Ten ADF Recipients, 2002-2007**  
(In US\$ millions, average annual in 2007 constant prices)

Highest ODA Recipients	Average Annual ODA Amount Received 2002-2007	Highest ADF Recipients	Average Annual ODA Amount Received 2002-2007
Nigeria	3861.3	Ethiopia	104.8
Congo, Dem. Rep.	2658.9	Mozambique	96.8
Tanzania	2098.3	Tanzania	89.3
Ethiopia	2086.2	Uganda	67.7
Mozambique	1853.6	Ghana	63.4
Sudan	1457.0	Burkina Faso	60.0
Uganda	1412.5	Mali	54.6
Ghana	1245.3	Senegal	41.4
Cameroon	1216.4	Madagascar	38.7
Zambia	1208.5	Niger	35.3

Source: ADB using OECD-DAC online database

**Annex VII: ODA From Non-DAC Donors Reporting to the OECD-DAC Database, 1997-2007**

*(In US\$ millions)*



**Source:** ADB using OECD-DAC online database

## **Annex VIII: Selected Mandates and Special Initiatives**

The **NEPAD Infrastructure Project Preparation Facility**, which is managed by the Bank, was established in 2003 with seed funding from the Canadian Government and was later transformed into a multidonor facility with further contributions from Denmark, Germany, Norway and the United Kingdom Department for International Development. The facility's key objective is to grant the resources necessary to assist African countries, regional economic communities, specialized agencies and related institutions in (i) preparing high quality and viable regional/continental infrastructure projects for which financing from public and private sources may be solicited; (ii) developing a consensus and partnerships for the implementation of infrastructure projects; and (iii) promoting infrastructure projects and programs with a view to furthering regional integration and trade. So far, the facility has approved financing for the preparation of 29 projects for a total amount of US\$ 18.1 million in terms of feasibility studies, capacity building and the fostering of an enabling environment.

The **Infrastructure Consortium for Africa** is a tripartite initiative between bilateral donors, multilateral institutions and African institutions. The consortium seeks to promote enhanced co-operation between its members in the promotion and preparation of national and regional infrastructure projects and programs and the mobilization of resources for infrastructure investments. The Bank Group hosts the Consortium Secretariat.

The **Enhanced Private Sector Assistance (EPSA) Initiative** is a multi-component, multidonor platform for the mobilization of resources and the development of partnerships to support the implementation of the ADB's strategy for private sector development. Drawing on successful development experiences in Asia and around the globe, EPSA was conceived in partnership with the Government of Japan, which provides financial support for its implementation for a total amount of US\$ 1 billion over 5 years. Financing is provided as concessional loans through a combination of direct lending to the Bank under the EPSA non-sovereign loan component and cofinancing under the Accelerated Cofinancing Facility for Africa (ACFA). In addition, the Government of Japan will contribute grant resources to the Fund for African Private Sector Assistance (FAPA). To date, Japan has contributed US\$ 30 million to FAPA, disbursed \$400 million under the non-sovereign loan component, and committed about \$190 million in joint cofinancing under ACFA, bringing its contributions to over 60 percent of funds committed. In addition, the Bank has contributed a total of UA 7 million to FAPA from net income in 2007 and 2008.

The **Investment Climate Facility for Africa** was launched in 2006 to boost growth and investment in Africa by making Africa "a better place to do business". This facility is a public-private partnership that collaborates with African governments, regional organizations, donors, NGOs, and international and domestic corporations to improve Africa's investment climate at the national, regional, and continental levels. The Bank is an active participant and financial contributor and has been entrusted with the administration of the facility's financial resources.

The **African Peer Review Mechanism** was launched by the African Union to ensure that the policies and practices of participating states conform to the political and corporate governance values, codes, and standards contained in the Declaration on Democracy, Political, Economic, and Corporate Governance. The Bank has been designated as the mechanism's lead agency for corporate governance, including banking and financial standards.

The **Extractive Industry Transparency Initiative**: Within the framework of the World Summit on Sustainable Development and the task forces on extractive industries set by multilateral and bilateral partners (the World Bank and the United Kingdom), the Bank will play an innovative role in the nexus between fragile states and the extractive industries. This includes support for the implementation of all initiative activities in member countries.

The **Public Finance Management Initiative** supports capacity development in African countries to address areas of budget formulation and revenue management systems, accounting and audit systems, recording and reporting systems, and staff training and development.

The **African Fertilizer Financing Mechanism** will increase access to rural fertilizer procurement and distribution facilities; provide credit guarantees for fertilizer importers/distributors and develop African fertilizer production capacity. The Bank has been given the mandate to lead and host this facility.

The working group on the **Strategic Partnership for Africa** is an informal association of donors and

African partners that work to improve the quality and increase the quantity of assistance to Africa. As an active member of this working Group, the Bank is spearheading efforts in capacity building.