Progress Report on ADF Core Operational Priorities

Discussion Paper

ADF-11 Mid-Term Review
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AFRICAN DEVELOPMENT FUND

Executive Summary

Purpose. During consultations for ADF-11, Management and Deputies agreed on a focused set of strategic and operational priorities for the ADF-11 period centered around infrastructure, governance, regional integration, and support for fragile states. Now, halfway through the ADF-11 cycle, this paper reports on the implementation of those priorities and discusses the associated challenges. The paper also reports on the very significant policy decisions taken by the Fund to support ADF countries and alleviate the impact of the recent food and financial crises.

Overall picture. The ADF has witnessed an unprecedented surge in demand for its concessional resources, partly in response to the unfolding impact of the financial crisis on ADF countries. Fifteen months into the ADF-11 cycle, the Fund has already committed more than three billion UA, or 52 percent of total ADF-11 resources. This level represents a near doubling of the volume of commitments compared to the same period of the last replenishment. By year-end, it is projected that 77 percent of the Performance-Based Allocation envelope, 94 percent of the Regional Operations envelope, and 76 percent of Fragile States Facility envelope will have been utilized. The significant increase in the share of policy-based loans in overall approvals reflects the recent urgent need for fast-disbursing instruments to rapidly cushion the crisis's impact on the economies of ADF-eligible countries.

ADF-11 core operational priorities. As agreed during the ADF-11 consultations, ADF has targeted and will continue to target interventions oriented around its core priorities.

Infrastructure. Infrastructure commitments represented 51 percent (at mid-cycle), and are expected to reach 59 percent by the end of the ADF-11 cycle. Infrastructure investments in transport, energy, water and sanitation, and information and communication technology topped UA 1.4 billion as of end-July 2009, improving Africa's competitiveness and serving as a fiscal stimulus for many RMCs.

Governance. Guided by the Governance Strategic Directions and Action Plan for 2008-2012, governance interventions represented 36 percent (at mid cycle) and are expected to account for 22 percent of the overall ADF portfolio by the end of the ADF-11 cycle. Support to 30 governance projects worth more than UA 865 million in 23 ADF countries, including seven fragile states, was provided mainly through policy based operations, particularly budget support, as well as through institutional capacity building projects at both the national and regional levels.

Regional Operations. In accordance with the Bank's Strategic and Operational Framework for Regional Operations approved in March 2008, Regional Operations commitments during the first half of ADF-11 were the highest ever, with an amount of UA 943 million for 16 operations, primarily in infrastructure. The majority of operations focused on the development and upgrading of regional transport corridors. Other operations consisted of Regional Public Goods projects in agriculture, the environment, the social sectors and governance. In accordance with the financing modalities agreed with Deputies, in principle two thirds of RO project costs were paid from the ADF regional envelope and one third was paid from the affected RMC's country allocation (cost sharing). There were exceptions for Regional Public Goods and a cost-sharing ceiling of 10 percent of their allocations for countries with allocations of UA 20 million or less. Accordingly, of the total amount, UA 657 million (70 percent) was financed from the RO envelope and UA 286 million (30 percent) was financed by cost sharing from PBA resources. Within the RO envelope, 26 percent of approvals concerned projects exempted from cost sharing. The significant unmet financing needs for ROs and the drying up of co-financing alternatives caused by the current financial crisis have led to almost all available RO resources being absorbed; they are expected to be exhausted by the first quarter of 2010.

Fragile States. The Bank's Strategy for Enhanced Engagement in Fragile States and the FSF's operational guidelines, based on the principles agreed with Deputies during ADF-11 negotiations, have guided the ADF's scaled-up support to fragile states over the past year. The Fragile States Facility was established in July 2008 as an operationally autonomous entity within the Bank Group whose integrated framework more effectively assists eligible fragile states. As of end-July 2009, UA 133 million had been committed under Pillar I of the FSF, providing resources over and above the eight beneficiary countries' regular PBAs for governance, capacity building, and the rehabilitation of basic infrastructure. Nearly 83 percent of Pillar II resources were used to provide critical support in clearing the arrears of Togo and Côte d'Ivoire. Finally, Pillar III resources, designed to offer limited resources to a wider set of countries with extremely weak public financial management and administrative systems, had been committed for a total of UA 16.8 million. Overall, fully 74 percent of

the FSF had been committed at end-July 2009.

Cross-cutting themes. Synergies between the Fund and selected Bank Group activities have been strengthened, most notably in the private sector area, as evidenced by the sharp increase in the Bank's private sector approvals in ADF countries to an unprecedented amount of UA 666 million in the first half of ADF-11. In the knowledge and voice area, the Bank Group has considerably expanded its role as the adviser and voice of ADF countries during the ongoing financial crisis and as Africa's primary source of key development data and analysis. Bank expertise in the agriculture and social sectors has been particularly invaluable in responding expeditiously to the food and financial crises.

Challenges. In implementing the strategic and operational priorities established for ADF-11, the Fund has faced two main sets of challenges: (i) adapting the Fund's support to ADF countries hit by the financial and economic crisis, and (ii) testing the new RO and Fragile States Frameworks and policies on the ground.

Adapting the Fund's support. In its response to the economic impact of the financial crisis presented to the ADF Board of Directors in March 2009, Management highlighted two factors that had proved crucial to the Bank's success in helping countries weather the crisis: increasing the Bank Group's delivery capacity and enhancing the flexibility of the ADF's policy framework. Accordingly, business processes were streamlined and improved, country allocation frontloading limits for countries affected by the crisis were relaxed, and the restructuring of the ongoing portfolio to reallocate resources on the basis of a new prioritization of activities was allowed. This has partly enabled the almost doubling in ADF commitments compared to the previous replenishment. Looking forward, three additional measures are being examined: (i) the relaxation of the 25 percent cap on PBLs if necessary and supported by demand, (ii) the revision of the reallocation policy for cancelled resources, and (iii) the development of new products to better leverage private sector resources and adapt public sector instruments to the changing needs of ADF countries.

Testing the RO and fragile states framework. A number of issues requiring adjustments have arisen in the 15-month implementation of the RO and FSF policy frameworks. First, the design of the RO cost sharing requirement has acted as a deterrent for a number of countries and the cost sharing cap for small allocations has had a regressive impact on countries whose performance has led to an increase in their allocation to just above UA 20 million. Furthermore, in the absence of cap or set-aside for resources allocable to RPGs financed without cost sharing, it has been challenging for Management to prioritize between RPG projects (mostly in the agriculture, health, environment and governance sectors), for which there is very high demand, and other ROs (mostly in infrastructure) financed from the RO envelope. Finally, there are currently no resources under FSF Pillar II to finance the clearance of the arrears of Somalia, Sudan, and/or Zimbabwe if and when they re-engage with the Fund.

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Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADF-8	Eighth General Replenishment of the African Development Fund
ADF-9	Ninth General Replenishment of the 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
ADOA	Ex-Ante Additionality and Development Outcome Assessment
C-10	Committee of Ten African Finance Ministers and Central and Regional Bank Governors
CBFF	Congo Basin Forest Fund
DRC	Democratic Republic of Congo
FSF	Fragile States Facility
HIPC	Heavily Indebted Poor Countries
ICF	African Investment Climate Facility
ICT	Information and Communication Technologies
LCBC	Lake Chad Basin Commission
MDRI	Multilateral Debt Relief Initiative
PBA	Performance-Based Allocation
PBL	Policy-Based Loan
PRGs	Partial Risk Guarantees
PRODEBALT	Lake Chad Basin Sustainable Development Programme
RMCs	Regional Member Countries
ROs	Regional Operations
RPGs	Regional Public Goods
RWSSI	Rural Water Supply and Sanitation Initiative
UA	Units of Account
UGPOA	Updated Gender Plan of Action

PROGRESS REPORT ON ADF CORE OPERATIONAL PRIORITIES

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1. Introduction

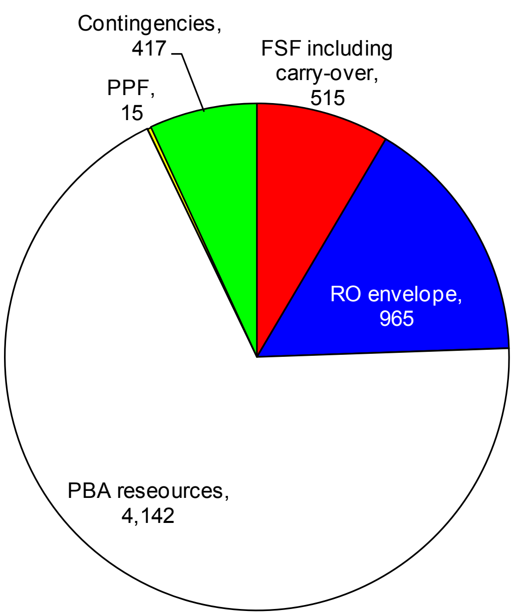
1.1 During the consultations for the Eleventh General Replenishment of the African Development Fund (ADF-11), Management and Deputies agreed on a focused set of strategic and operational priorities centered around infrastructure, governance, regional integration and support to fragile states for the ADF-11 period. Now, half-way through that period, this paper reports on the implementation of those priorities and discusses the associated challenges. The paper also reports on the very significant policy and process measures taken by the African Development Fund (ADF or the Fund) to support ADF countries in alleviating the impact of the recent food and financial crises. A companion report presents the implementation at mid-term of the ADF-11 resource allocation framework.

1.2 Section 2 of this paper provides an overall snapshot of the ADF's implementation of its core operational priorities and Section 3 reviews progress and discusses key emerging operational trends. Section 4 reports on cross-cutting themes. Section 5 examines implementation challenges faced by Fund operations and details the Fund's proposed response. Section 6 contains concluding remarks.

2. Overall Snapshot of ADF Operational Priorities

2.1 The ADF's overall performance to date has been influenced by remarkable demand for the Bank's concessional window, partly due to the financial crisis and its unfolding impact on the economies of ADF regional member countries (RMCs). Within 15 months of the entry into force of ADF-11, the Fund had committed UA (Units of Account) 3.14 billion or 52 percent of total ADF-11 resources of UA 6.051 billion (Figure 1), almost doubling the amount of its commitments during the comparable period of its last replenishment.

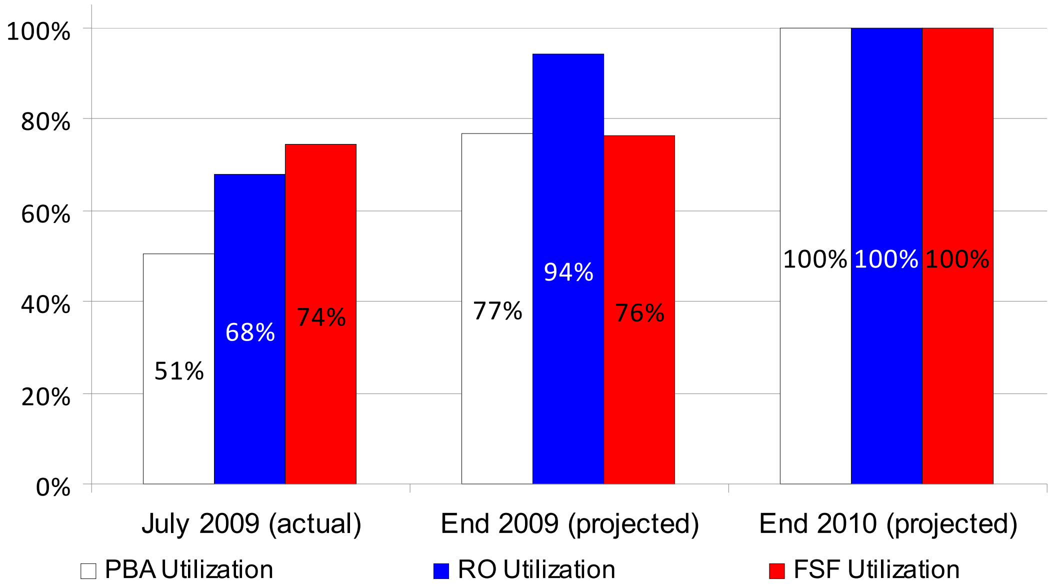
Figure 1: ADF-11 Expected[1] Resources by Window
(In UA millions)



[1] Expected resources are carry-overs (including PCCF carry-overs) and internally generated resources, plus resources pledged by donors, minus contingencies.

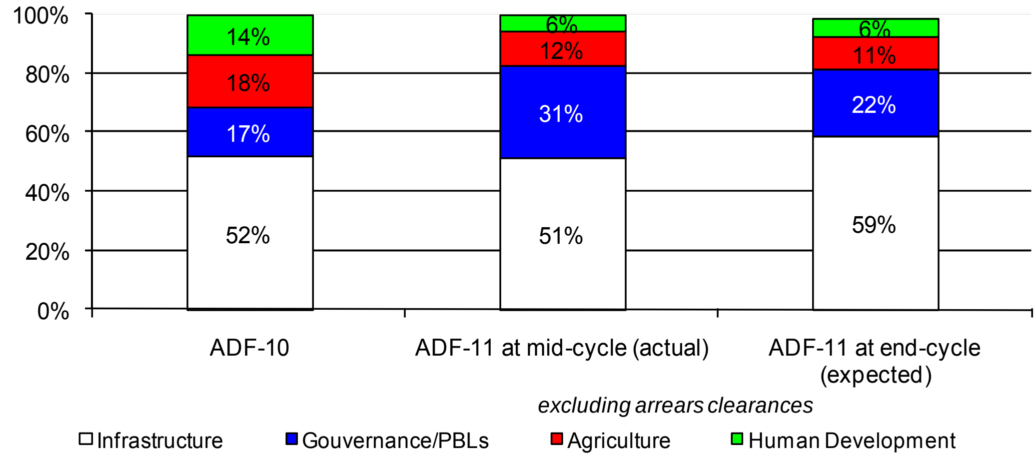
2.2 As of end-July 2009, this strong demand for ADF resources had resulted in significant front-loading. This front-loading was partly facilitated through the Fast Track Program[2] developed in response to the financial crisis (Annex I). As a result of the frontloading, 51 percent of the Performance-Based Allocation (PBA) envelope, 68 percent of the Regional Operations (ROs) envelope and 74 percent of the Fragile States Facility (FSF) had been committed by end-July. Given the current confirmed pipeline of projects, the utilization rate will reach 77 percent of the PBA envelope, 94 percent of the RO envelope and 76 percent of the FSF by end-2009 (Figure 2). Most notably, 15 ADF countries will have fully utilized their country PBAs by end-2009.[3]

Figure 2: Actual and Projected Status of the Use of ADF-11 Resources



2.3 The Fund has also significantly sharpened its focus on the agreed strategic priorities (Figures 3 and 4), principally by shifting resources from agriculture and human development to infrastructure and governance.

Figure 3: ADF Commitments by Sector for ADF-10 and ADF-11

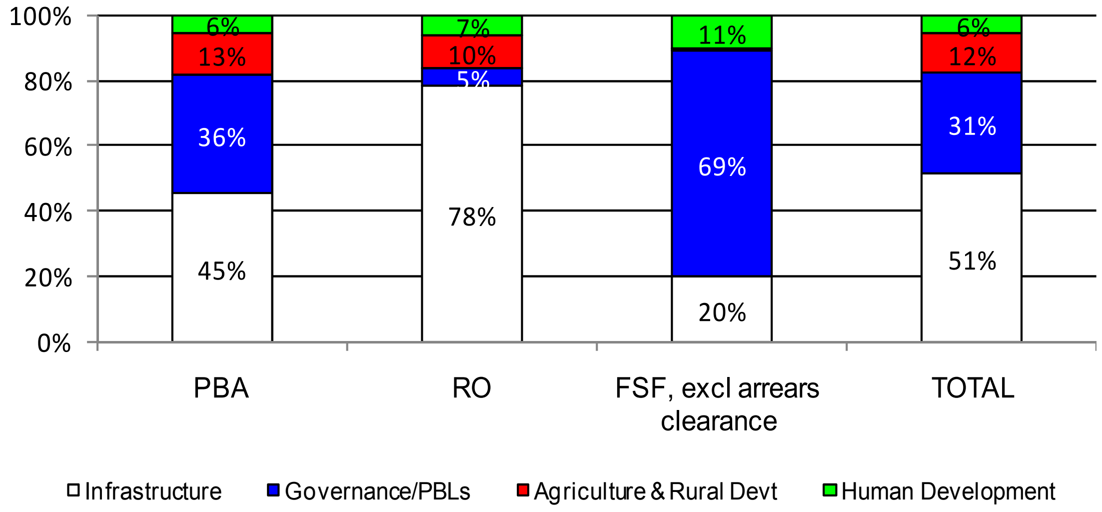


[2] African Development Bank. March 2009. *Bank Response to the Economic Impact of the Financial Crisis*. ADF/ADB/WP/2009/32.

[3] For eight of these countries, this exceptional front-loading was authorized due to the small size of allocations (below UA 20 million). For the others, it is justified as a response to the financial crisis.

2.4 **Scaled-up support to ROs and fragile states** was provided as agreed with Deputies (paragraphs 3.16 and 3.26). Commitments to ROs reached their highest annual level ever at UA 943 million, of which UA 657 million was financed by the RO envelope set aside in part to finance the backlog of operations which could not be financed under ADF-10. RO envelope front-loading currently stands at 68 percent compared to 40 percent at mid-term ADF-10 (July 2006). UA 382 million of the UA 515 million in FSF resources have supported arrears clearances in Côte d'Ivoire and Togo and operations in Burundi, Central African Republic, Comoros, Côte d'Ivoire, Guinea-Bissau, Liberia and Sierra Leone. Full utilization of the RO and FSF envelopes is forecast by the first quarter of 2010. This will leave significant unmet demand, particularly for ROs (close to UA 500 million worth of projects have been put in reserve, postponed to ADF-12 or dropped) and for the FSF arrears clearance window used to support countries likely to re-engage in the near future (e.g. Zimbabwe).

Figure 4: ADF Sector Distribution by Window (Approved at Mid-Term)

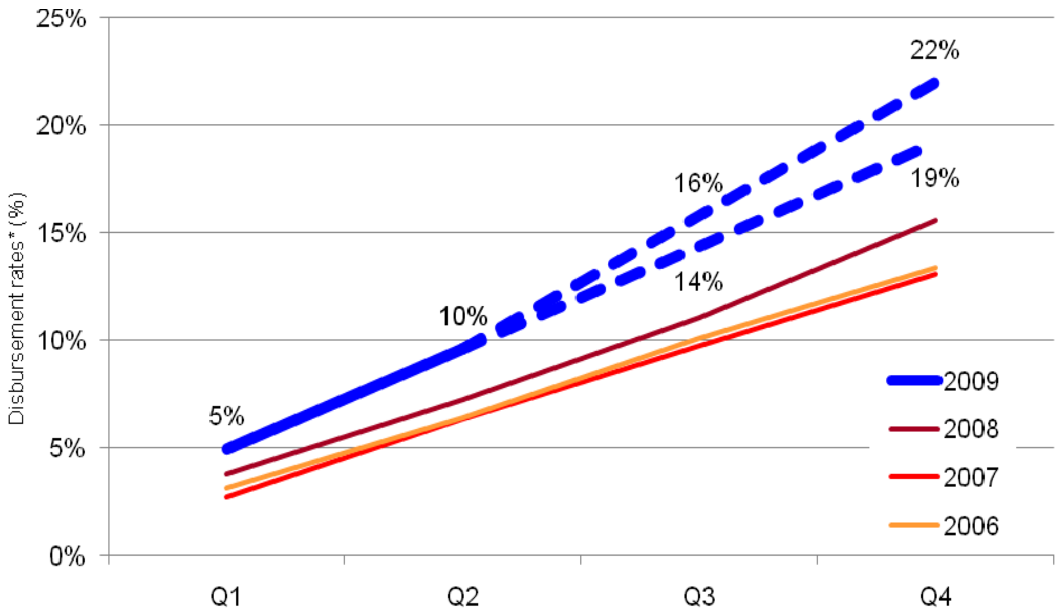


2.5 **The mix of instruments shifted significantly** between ADF-10 and ADF-11. The share of policy-based loans (PBLs) in overall PBA approvals increased from 14 percent in ADF-10 to 36 percent as of end-July 2009. PBLs also represent 69 percent of approvals under Pillar I of the FSF. This reflects an appetite in times of crisis for fast-disbursing instruments to cushion the crisis' impact on the economy. Current PBL approvals stand at 20 percent of PBA resources, i.e. well within the agreed ADF-11 PBL ceiling (25 percent of the ADF-11 PBA envelope). While the current pipeline does not suggest that this ceiling will be exceeded, PBL approvals may reach the agreed 25 percent ceiling if the demand for crisis-related PBLs in replacement of investment projects grows (paragraph 5.6).

2.6 **ADF active portfolio disbursements**[4] also shows great improvements. 11% of the undisbursed stock of project amounts (excluding budget support operations and transfer to FSF) have already been disbursed by end-July, compared to between 6 and 7% at the same period for the three previous years; Figure 5 illustrates this marked improvement which is expected to be pursued throughout the year and set the annualised rate between 19 and 22%. Budget support operations in the active ADF portfolio have a disbursement rate of 31 percent.

[4] The ADF's active portfolio disbursement ratio tracks, throughout a given year, the disbursement of all ongoing ADF projects over the undisbursed stock of approved amounts at the beginning of the year; excluding budget support operations and special transfers (FSF, for example).

Figure 5: Evolution of disbursement rates from 2006 to 2009



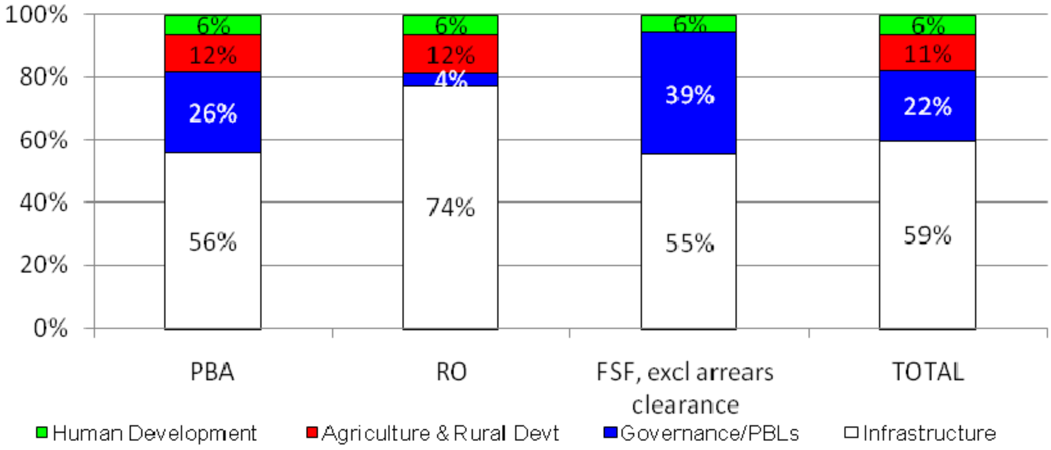
* disbursement rates are calculated as disbursements within the calendar year divided by stock of undisbursed loans and grants at the beginning of the year; Budget Support operations and transfer to FSF are excluded

2.7 **As part of the ADF's response to the financial crisis**, **flexibility in ADF operations and policies** was sought in five main areas (section 5.5 et seq). First, flexibility was applied in the management of resources by allowing significant front-loading of resources (paragraph 2.2) to provide rapid support to countries in need. Second, portfolio restructuring rules were relaxed to allow resources to be channeled from selected existing projects to areas in need and/or to support new objectives. Third, the project processing time for Board presentations was reduced to 3 working days for projects presented in response to the crisis. Fourth, it was agreed that part of the resources cancelled during ADF-11 would be immediately reallocated during ADF-11 rather than be reallocated through the Advance Commitment Authority during the next cycle as had previously been the case. Fifth, it was proposed to develop new products and instruments to leverage ADF resources.

3. Progress on ADF Operational Priorities

3.1 As was agreed during the replenishment consultations, ADF has targeted its core priorities (Figure 4) and intends to continue to do so for the remainder of ADF-11 (Figure 6). Each core priority is presented in the following sections, together with commitments and disbursements and preliminary outputs where available.

Figure 6: ADF Sector Distribution by Window (Pipeline)
(Expected at End-Cycle)



Infrastructure

3.2 With 51 percent of overall approvals at mid-term and 59 percent expected for the end of the cycle, infrastructure represents the largest share of ADF-11 commitments. As of end-July 2009, the ADF had committed more than UA 1.4 billion to help bridge the continent's infrastructure gap and improve Africa's competitiveness (Table 1). In the midst of the financial crisis, infrastructure expenditures also serve as a fiscal stimulus for many RMCs. As agreed with Deputies, operations in the infrastructure sector have focused on the following key subsectors: (i) in transport, developing regional corridors, supporting trunk and rural roads and investing in urban programs; (ii) in energy, expanding access through the financing of power generation capacity, transmission and distribution lines, power pools, and clean energy schemes; (iii) in water and sanitation, accelerating access to water supply and sanitation; and (iv) in information and communications technology (ICT), promoting interconnectivity. Sixty percent of infrastructure projects approved during ADF-11 (particularly large projects) are cofinanced.

Table 1: Summary of ADF-11 Infrastructure Operations as of End-July 2009
(UA millions)

	Count	*Amount*
Transport	17	915.04
Energy	8	266.01
Water	10	250.36
ICT	0	-
Total	**35**	**1,431.41**

3.3 In transport, the Fund has invested in 17 operations for a total of UA 915 million (i.e. an average project size of UA 54 million). Close to 1800 kilometers of roads are under construction, including major regional transport links between regional blocs and 355 km of feeder roads that will facilitate rural dwellers' access to key centers and services in Burkina Faso, Burundi, Cameroon, Chad, and Rwanda[5]. In addition to roadworks, socioeconomic facilities such as markets, safe water supply points, health centers and classrooms will be constructed in order to improve the welfare of the population living in the vicinity of the new roads.

3.4

[5] Please refer to the ADF-11 Mid-Term Review paper, *Progress in Implementing ADF-11 Results Measurement Framework*.

In energy, the Fund has approved eight projects for a total of UA 266 million (an average of UA 33 million per project) in power generation, transmission and distribution as well as in the creation of regional power pools through the financing of flagship projects. Power generation is being increased in Sierra Leone (50MW) and the Democratic Republic of Congo (DRC); regional interconnection operations are underway between Ethiopia and Djibouti (283 km of 220kV lines, 84.5 km of 63kV lines and 239 km of 33kV lines) and in the five Nile Equatorial Lakes countries (769 km of 110kV and 220kV lines in Burundi, DRC, Kenya, Rwanda and Uganda). Power transmission is being upgraded in Uganda (420 km of 132kV lines) and Kenya (450km of 400kV lines, 5km of 220kV underground cable and 19km of 2x220kV lines).

3.5 In water and sanitation, ten operations have been financed for a total of more than UA 250 million, i.e. an average project size of UA 25 million. These operations include five Rural Water Supply and Sanitation Initiative (RWSSI) projects or components of other projects (UA 112.9 million) in Mali, Malawi, Rwanda, Senegal and Tanzania, and five urban water, sanitation and sewage interventions (UA 143.46 million) in Cameroon, Mauritania, Mozambique, Uganda, and Zambia. A number of these operations (Malawi, Mali, Senegal and Tanzania) are second phase RWSSI interventions that complement a successful first phase during ADF-10 (Box 1).

Box 1: Phase II of the Senegal National RWSS Programme

The UA 30 million ADF loan for the Phase II intervention of the ***Senegal National RWSS Programme*** was approved in February 2009 after successful implementation of the Phase I intervention. Phase I, which serves the regions of Louga, Kolda and Ziguinchor, is now almost completed and will come to an end in December 2009. Phase II continues to improve the health conditions of rural populations in the regions of Kaolack/Kaffrine, Tambacounda, Kolda/Sédhiou and Ziguinchor by increasing access to drinking water supply and sanitation services. It covers the rehabilitation and construction of water supply and sanitation infrastructure such as boreholes, multi-village water supply systems, water tanks, water connections, meters, public toilets and family latrines. It also supports the institutions involved in the implementation of these projects. In addition, Phase II has supported the establishment of users' associations and has helped train users and private operators in water systems management. By the time that Phase II is completed in 2013, the water access rate will have increased from 37 percent to 45 percent and the sanitation access rate will have grown from 17 percent to 26 percent. A total of 162,000 people will have been provided with sustainable water supply facilities and 150,000 people will have been provided with sanitation facilities. The entire five-region population of 800,000 will benefit from the project's hygiene promotion and behavior change program. Already, expenses for medical care due to water-related diseases have been significantly reduced as a result of Phase I and beneficiaries are devoting a much larger portion of their time to productive activities because they no longer have to fetch water.

3.6 In the policy area, the Bank Group has strengthened dialogue with regional organizations such as the African Ministers' Council on Water and the African Union to advance actions towards achieving water and sanitation targets. Through the African Water Facility and the Water Partnership Programme, the Bank has played a lead role in helping the African Ministers' Council on Water move the African Water Vision forward. The Bank has supported key events such as the African Union Summit of Heads of States and Governments on Water and Sanitation in July 2008, and the 5th World Water Forum held in Istanbul, Turkey in March 2009.

3.7 In ICT, a new strategy was approved in October 2008 focused on the development of ICT broadband infrastructure and related policies. Since then, eight feasibility studies have been approved under trust funds to evaluate potential projects. An estimated UA 1 billion is required for the implementation of ICT projects in ADF countries.

3.8 Maintenance: As per its commitment under ADF-11, the Fund ensures that sustainable financing mechanisms are in place for the maintenance of the infrastructure operations it finances. In the road sector, the Fund has played a convening role by dialoguing with countries and development partners on the creation and strengthening of Second-Generation Road Funds, set up to ensure the financing of sustainable road network maintenance programs. Almost 30 countries in Sub-Saharan Africa now have road maintenance funds: this has led to significant progress in the funding, management and maintenance of roads. The Bank has also been assisting power utilities to strengthen their financial standing through tariff reforms, operational and maintenance improvements, and capacity building.

3.9 ADF infrastructure disbursement rates at end-July 2009 stand at 22 percent for the total active portfolio and 2 percent for operations approved during ADF-11. These disbursement rates reflect both the lead time to first disbursement and delays in implementation. Management is taking significant steps to improve quality at entry and reduce the ratio of infrastructure projects that are candidates for cancellation (UA 303 million as of June 30, 2009) to the total active infrastructure portfolio (UA 3,534 million). Steps include: i) reduce procurement delays by increasing the use of direct contracting; ii) prior to loan/grant negotiations, resolve issues that could potentially be included as loan/grant conditions; iii) firm up institutional arrangements and make project cost estimates more accurate; and iv) increase joint project preparation with partners. At the conceptual stage, Readiness Reviews are being systematically conducted to assess project design and the adequacy of institutional arrangements as a means of facilitating the smooth launching and implementation of new projects. In addition, Field Office staff are increasingly involved in project preparation and supervision, with 18 infrastructure specialists now based in the field.

Governance

3.10 Interventions to improve governance have intensified under ADF-11, with governance-related projects representing 36 percent of overall approvals as of end-July 2009 and 22 percent of the actual and expected pipeline approvals until the end of the cycle. Guided by the Governance Strategic Directions and Action Plan for 2008-2012 approved in May 2008, the Fund has focused on helping countries advance transparency and accountability in the management of public resources through enhanced support for economic governance and public financial management. The strategy is being implemented at three levels: (i) improving core governance systems and institutions at the country level; (ii) mainstreaming and strengthening governance at the sector level; (iii) promoting regional integration and harmonization in governance. Most lending activities are concentrated at the country level and are complemented by policy dialogue and advisory and analytical work. The other two levels of intervention consist mainly of multinational operations, special initiatives and non-lending activities.

3.11 Thirty governance operations totaling UA 865.92 million had been approved in 23 ADF countries as of end-July 2009[6] (Table 2).

Table 2: Summary of ADF-11 Approved Governance Operations as of End-July 2009
(UA millions)

	Count	Amount
Budget Support	24	815.06
of which to fragile states	7	92.26
Institutional Support	3	18.06
Regional Integration	3	32.80
Total	***30***	***865.92***

3.12 At the country level, a large portion of the Fund's support for governance activities is provided through policy-based loans and grants used to improve public financial management. The use of PBLs is consistent with RMCs' preferences[7] and the Bank Group's Paris Declaration on Aid Effectiveness commitments on harmonization, alignment and the use of program approaches. These commitments were subsequently reinforced by the Accra Agenda for Action. The Fund has also played a key role in jumpstarting the strengthening of public financial management in fragile states such as Togo and Liberia (Box 2).

[6] Operations were approved for Burundi, the Central African Republic, Comoros, Côte d'Ivoire, the DRC, Liberia, Sierra Leone, and Togo; institutional support projects were approved for Comoros and Guinea-Bissau.
[7] For example, the OECD-DAC 2006 Joint Evaluation of General Budget Support.

Box 2: Liberia: Strengthening Good Financial Governance in a Fragile State

Recognizing Liberia's strong performance in reconstructing the country and rebuilding its institutions since the end of the civil war, the Fund led donors by approving its first budget support operation in Liberia in December 2008. The overarching purpose of this operation, the Public Financial Management Reform Support Programme I, is to support the country's public financial management reform program and the modernization of its revenue administration. The operation is financed by a UA 9.0 million FSF grant and a UA 3.0 million African Food Crisis Response grant. In May 2009, the operation was supplemented by a UA 3.4 million FSF grant to help authorities respond to the fiscal impact of the global economic crisis.

This budget support operation is part of a broader set of interventions by the Fund in the area of governance in Liberia. It complements the Institutional Support Project for Governance, Economic Management, and Poverty Reduction (UA 3.0 million approved in October 2006 under ADF-10), which through training and technical assistance has strengthened core agencies' capacity to formulate policy, collect revenues, and execute a budget. In addition, a small grant to the Liberia Extractive Industries Transparency Initiative supports transparency in extractive industries revenues, especially in the forestry sector. Liberia has since become the first African country to complete the Extractive Industries Transparency Initiative validation exercise.

The Fund's operations have strengthened public financial management and improved fiscal policy by enhancing the capacity of the Ministry of Finance's Macro-Fiscal Unit. The Macro-Fiscal Unit is now increasingly performing core functions and the current budget has been linked to the new medium-term fiscal framework that allows better revenue planning and other fiscal measures. The budget support grant has also helped to generate domestic revenues by making operational a one-stop customs service facility. In addition, it has contributed to strengthening the government's public procurement and audit functions. A revision of the 2005 Public Procurement and Concessions Act, harmonized with petroleum and mining laws, is now before Cabinet. Procurement regulations and a manual, already prepared, will supplement the Act as it is approved by the Legislature. In addition, the implementation of audits by the General Audit Commission has progressed significantly since August 2008. The General Audit Commission submitted audits of five key ministries to Parliament before June 2009 (a requirement for the Heavily Indebted Poor Country (HIPC) completion point). Key ministries are also conducting internal audits with increasing frequency. Finally, the Fund is supporting the further codification of budget operations that will allow the country to transition to an integrated financial management information system. Better codification will help raise the government's budget system to internationally accepted standards.

3.13 At the <u>sector level</u>, the Fund has scaled up its work on sector governance, mainly through special initiatives, non-lending work and analytical and advisory activities. The Fund has focused on improving the enabling environment and mitigating the risk of corruption in key sectors such as infrastructure and natural resources management, including through support of the Extractive Industries Transparency Initiative candidacy status of the Central African Republic, Liberia, and Madagascar.

3.14 At the <u>regional level,</u> the Fund has scaled up its support for standards and codes of good governance by promoting a regional agenda for good financial governance and statistical capacity building and by strengthening pan-African institutions and networks. In particular, the Fund has supported the following entities: the West African Economic and Monetary Union for the integration of payment systems in West Africa; three regional operations for the development of statistical capacity (see paragraph 4.8); the African Organisation of Supreme Audit Institutions to encourage efficiency, transparency and accountability in public financial management through better government auditing standards; the African Peer Review Mechanism; and the Investment Climate Facility to promote an enabling environment for private sector development.

3.15 <u>Specific key measures</u> have been implemented to increase the quality at entry of governance operations and thus maximize results under ADF-11. Most notably, the Fund approved a set of core indicators to measure progress across the governance portfolio and facilitate reporting on results. While it is too early to report on the results of ADF-11 governance operations in a comprehensive manner, the fast-disbursing nature of governance operations has allowed for the collection of preliminary evidence of the impact of some of these operations. These emerging results are presented in Annex II.

Regional Operations

3.16 In recognition of the importance of regional cooperation and economic integration and in response to strong client demand for ROs, ADF Deputies have, over time, scaled up ADF replenishment resources earmarked for ROs in addition to countries' PBA resources. Starting from 5 percent during the period of the Eighth General Replenishment of the African Development Fund (ADF-8), the RO envelope rose to 10 percent during the period of the Ninth General Replenishment (ADF-9), to 15 percent during ADF-10 and to 17.5 percent during ADF-11. Deputies have also guided the strategic orientation of ADF's ROs. In March 2008, the Board approved the Bank's Strategic and Operational Framework for Regional Operations[8] that focuses on infrastructure, regional public goods (RPGs) and institutional capacity building. Recently, the Bank adopted a Regional Integration Strategy that focuses on two major pillars: infrastructure and capacity building.[9]

3.17 **Current ADF-11 RO commitments** amount to UA 943 million and support 16 operations, primarily in infrastructure (Table 3). Other operations are mostly in agriculture, the environment, social sectors and governance. Annex III lists ROs and RPGs.

Table 3: Summary of Regional Operations Approved During ADF-11
(UA millions)

	Count	RO envelope*	PBA envelope*	Total*
Agriculture & Rural Devt	2	68.98	-	**68.98**
Governance/PBLs	3	36.54	-	**36.54**
Human Development	3	45.62	-	**45.62**
Infrastructure	8	505.61	286.29	**791.90**
Grand Total	**16**	**656.74**	**286.29**	**943.03**

* including grant surcharge

3.18 In transport, operations focus on the development and upgrading of regional transport corridors (1,790 km of bitumen-surfaced roads) to improve links and promote interregional trade by reducing travel and border crossing times and thus transport costs (Box 3).

[8] African Development Bank. January 2008. *Strategic Operational Framework for Regional Operations*. Document ADB/BD/WP/2008/31/approved ADF/BD/WP/2008/16/approved.

[9] African Development Bank. February 2009. *Bank Group Regional Integration Strategy 2009-2012*. Document ADB/BD/WP/2009/24 ADF/BD/WP/2009/22.

Box 3: Regional Operation in the Transport Sector: The Mombasa-Nairobi-Addis Ababa Road Corridor Phase II

The **Mombasa-Nairobi-Addis Ababa Road Corridor Phase II** project, approved by the ADF Board in July 2009 for UA 210 million out of a total cost of UA 328.76 million, provides support for a vital section of Trans-African Highway 4 from Cairo to Cape Town[10] and is a prime example of the ADF's role in supporting regional integration, infrastructure development and trade capacity building. The project aims to promote trade and regional integration between Ethiopia and Kenya by improving transport communications between the two countries. The project involves the construction to bitumen standard of 438 km of road sections consisting of a 245 km Merille River-Marsabit-Turbi section in Kenya and a 193 km Ageremariam-Yabelo-Mega section in Ethiopia. The project is cofinanced by the Bank Group (64 percent), the European Union (23 percent) and the Governments of Ethiopia and Kenya (13 percent). Of note is that countries decided to contribute 50 percent of the financing costs of the project as cost-sharing from their PBA allocations rather than the usual 33 percent required by the RO framework. This demonstrates these countries' commitment to the success of the project. The project's expected outcomes include reduced transport and shipping costs between Kenya and Ethiopia; reduced transit times for imported and exported goods; and an increase in the volume of Ethiopian transit goods through the port of Mombasa. The development of the corridor will expand market sizes beyond national boundaries and foster a conducive and enabling environment for the private sector and foreign direct investments. In addition to enhancing trade and strengthening regional integration, the project will help reduce poverty in both countries by increasing access to markets and social services for residents of the surrounding areas and communities and by empowering women and other disadvantaged groups through appropriate roadside socioeconomic infrastructure and services.

3.19 In power, projects aim at enabling participating countries to establish and operate larger and more robust regional power systems, increase the cross-border trade of electrical energy and take advantage of the synergy effects of complementary power systems. Regional power operations approved during the ADF-11 period comprised a study for regional interconnection and hydro electricity generation (UA 9.51 million) and two regional power systems interconnection projects (UA 20.92 million and UA 99.77 million respectively).

3.20 **Regional public goods**. Eight ROs classified as RPGs have also been approved in ADF-11 so far, primarily in agriculture, environment, health, education and governance-related activities (Figure 6). These include the Lake Chad Basin Natural Resources Protection and Development Project (UA 30 million, Box 4), the Congo Basin Project (UA 36 million), the West African Payment System (UA 14 million), the River Blindness Control and Eradication Project (UA 16 million), the Multi-Country Demobilization and Reintegration Program (UA 14 million), and capacity-building projects for three regional institutions.

[10] On the Cape Town to Cairo road corridor (Trans-African Highway 4), the Fund is also funding the Nairobi-Thika road project, the multinational Tanzania-Kenya Arusha-Namanga-Athi River road project, and the Tanzanian Singida-Babati-Minjingu road project and is appraising the Tanzanian Iringa-Dodoma Road Sector Support Project.

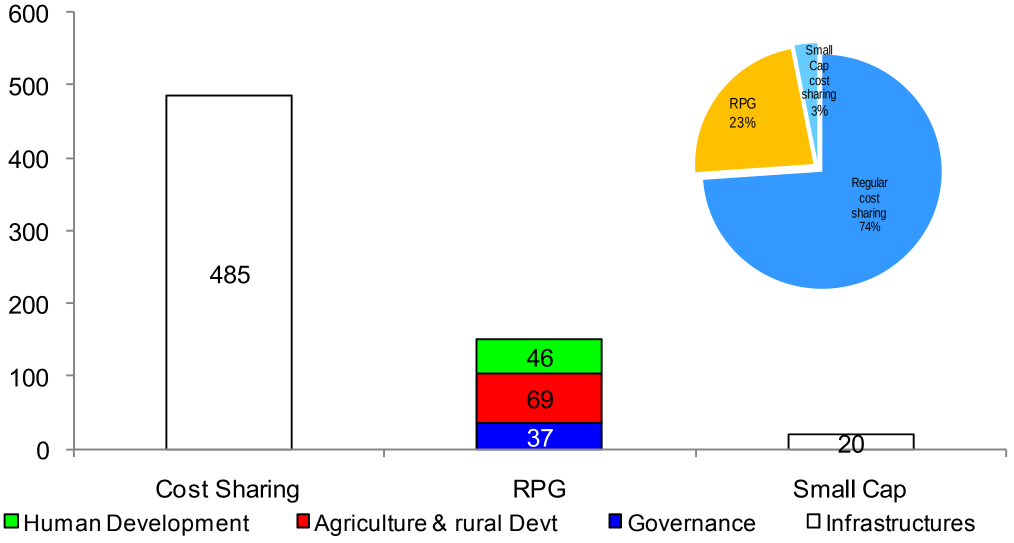
Box 4: Example of a Regional Public Good: The Lake Chad Basin Sustainable Development Programme

The **Lake Chad Basin Sustainable Development Programme (PRODEBALT)** is designed to reverse the declining water flows and water quality, the loss of biodiversity, the water erosion and the silting that are presently affecting Lake Chad and its entire basin. The ADF will contribute up to 50 percent (UA 30 million) of the cost of PRODEBALT to stabilize sand dunes, increase water inflows, reforest and protect over 50,000 hectares of land and river banks, and conduct other related activities. Because Lake Chad is a common good for the five member states that form the Lake Chad Basin Commission (LCBC)—the Central African Republic, Cameroon, Chad, Niger, and Nigeria—the actions proposed under the program will benefit all members, thus meeting RPG criteria of public interest and ownership, multi-country involvement, non-rivalry (the fact that one country benefits does not impede another from doing so), and non-exclusion (no country can be excluded from enjoying the benefits of the program). Moreover, PRODEBALT's strategic alignment with the priority areas of the national poverty reduction strategies of the member states and the LCBC Strategic Action Plan fulfills the RPG criteria of strategic alignment. The Bank has also financed the preparation and dissemination of the Water Charter and updated the LCBC Strategic Action Plan, thus providing the common framework for the coordination of interventions. By adopting a catalytic role and facilitating harmonization among stakeholders, the Fund and other participating donors are successfully countering the risk of individual beneficiaries free riding on the initiative.

3.21 **In accordance with the financing modalities** provided in the strategic operational framework for ROs, two thirds of a RO project's costs are usually paid from the ADF regional envelope and one third is paid from the affected RMC's country allocation (this financing requirement from the country PBA allocation is called cost sharing). To accommodate specific constraints of small countries, a cost-sharing ceiling of 10 percent of the individual country's PBA allocation is applied to countries with allocations of UA 20 million or less. Selective support for RPGs without cost sharing may be provided on a case-by-case basis. In November 2008, Management established a framework that included criteria for the prioritization of RPGs and the exemption of cost sharing. The three-step filtering framework to prioritize the list of proposed RPGs is based on the following initial criteria: non-excludability, non-rivalry, public interest and ownership, a regional dimension, strategic alignment, a catalytic and upstream role, and the incremental benefit in cooperating. Based on the induced development effect, RPG proposals were then ranked. The resulting cost-sharing exemptions granted by the Operations Committee amounted to 24 percent of the overall RO resource pool.

3.22 Of the total amount of UA 943 million approved in support of ROs as of end-July, UA 657 million (70 percent) was financed from the RO envelope and UA 286 million (30 percent) was financed by cost sharing from PBA resources. Within the RO envelope, 74 percent of resources financed projects with cost sharing from participating countries and 26 percent financed projects exempted from cost sharing, either because the projects in question were RPGs exempted from cost sharing (23 percent) or, in a limited number of cases, because participating countries were subject to the small cap exception (3 percent) (Figure 7).

Figure 7: Application of the Strategic and Operational Framework of Regional Operations to Date
In UA millions



3.23 Under the current project pipeline, the RO envelope is expected to be 94 percent utilized by year-end and fully exhausted by the end of the first quarter of 2010 (see Annex III for the pipeline of ROs and RPGs). This utilization rate reflects the readiness of the pipeline of operations being developed since ADF-10, the enormous unmet financing needs of ROs and the decreasing level of cofinancing arrangements due to liquidity constraints resulting from the ongoing financial crisis.

3.24 Lessons from previous operations have been integrated into current project designs to increase quality at entry and project performance. Projects are designed with strong stakeholder support and whenever necessary (for example for the Lake Chad Basin Program described above), the project design is fully coordinated with donors' complementary interventions. The lending program is informed by a process that prioritizes pipeline projects according to two major criteria: development effectiveness and strategic alignment with the priorities of the ADB, the continent and the New Partnership for Africa's Development. The program is approved by Senior Management in the Operations Committee.

3.25 In addition to the above-mentioned efforts, the Bank has set up a department dedicated to regional integration with a view to placing it at the forefront of the continent's regional integration agenda. Through a tight web of partnerships with Africa's premier organizations and multilateral institutions, the department has developed an approach that aims to improve collective RO performance. The department is in charge of the Secretariat of the Infrastructure Consortium for Africa,[11] which offers a platform to pool efforts to accelerate the development of Africa's infrastructure. As host of the New Partnership for Africa's Development's Infrastructure Projects Preparation Facility, the department also helps to prepare and package high quality and viable regional infrastructure projects for investment. As of end-July 2009, the Infrastructure Projects Preparation Facility had supported 29 projects with a total commitment of UA11.7 million. Finally, the department is engaged in several joint reviews with the African Union Commission, the New Partnership for Africa's Development Secretariat and the United Nations Economic Commission for Africa, in particular the Programme for Infrastructure Development in Africa. This program, launched in February 2008, aims to provide a coherent and strategic framework that will serve as a common platform for defining, implementing and monitoring regional and continental infrastructure development in Africa. The Programme for Infrastructure Development in Africa study is

[11] The members of the Infrastructure Consortium for Africa include G8 bilateral development finance institutions, the World Bank Group, the African Development Group, the European Commission, the European Investment Bank and the Commission of the Development Bank of Southern Africa.

scheduled for completion by end- 2010.

Fragile States

3.26 The ADF has significantly scaled up its support to specific post-crisis and transitional countries in accordance with the Bank's Strategy for Enhanced Engagement in Fragile States and the FSF's operational guidelines, approved in March and July 2008 respectively.[12] Both the strategy and the operational guidelines were based on operational elements and principles agreed with Deputies during the ADF-11 negotiations (Table 4).

Table 4: Fragile States Facility

Pillar/ Elements of Strategy	Window	Strategic Priority Areas of Intervention	Eligible Countries
I	- Supplemental support window that can provide beneficiary countries with resources over and above their regular PBAs. The supplemental resources are based on the average of the two highest ADF-10 country allocations, minus the UA 5 million minimal allocation, multiplied by a top-up factor of 2.17 and subject to a floor of UA 10 million and a ceiling of UA 60 million.	Governance/capacity building and the rehabilitation/reconstruction of basic infrastructure	Nine post-crisis and transitional countries can benefit from the supplemental FSF window during ADF-11: Burundi, Central Africa Republic, Comoros, DRC, Côte d'Ivoire, Guinea-Bissau, Liberia, Sierra Leone and Togo.
II	Arrears clearance window	Arrears clearance	Only Togo and Côte d'Ivoire benefited under ADF 11.
III	Targeted support window that provides a limited pool of additional grant resources to the full range of fragile states	Secondments for capacity building, small grants to non-sovereign clients for service delivery, knowledge building and dialogue	Full range of 17 fragile states (see para 3.28)

3.27 The **Fragile States Facility** was established as an operationally autonomous, special purpose entity within the Bank Group in July 2008, following approval by the Boards of Directors of the Operational Guidelines of the Fragile States Facility. The FSF's objective is to provide a broader and more integrated framework through which the Bank can more effectively assist eligible fragile states, especially those emerging from conflict or crisis, to consolidate peace, stabilize their economies and lay the foundation for sustainable poverty-reduction and long-term economic growth.

3.28 In 2008 and 2009, Management assessed 17 RMCs as fragile or conflict-affected under the eligibility criteria for one or more of the FSF windows. These RMCs were Burundi, Central Africa Republic, Chad, Comoros, Congo Republic, Côte d'Ivoire, the Democratic Republic of Congo, Djibouti, Eritrea, Guinea, Guinea-Bissau, Liberia, Sierra Leone, Somalia, Sudan, Togo and Zimbabwe.

3.29 Under ADF-11, the FSF was allocated 7.5 percent of the total ADF resources envelope net of deductions for contingencies, i.e. a total amount of UA 408.43 million. The resources of Pillar II of the FSF were augmented with carry-over resources from the Post-Conflict Country Facility in the amount of UA 179.36 million. Finally, because of the high demand for FSF

[12] African Development Fund. January 2008. *Strategy for Enhanced Engagement in Fragile States*. Document ADF/BD/WP/2008/10.
African Development Bank. July 2008. *Operational Guidelines of the Fragile States Facility*. Document ADB/BD/WP/2008/103 ADF/BD/WP/2008/60.

resources, the Board of Directors approved the allocation of UA 60 million from 2008 ADB net income to support FSF Pillar III activities (Table 5).

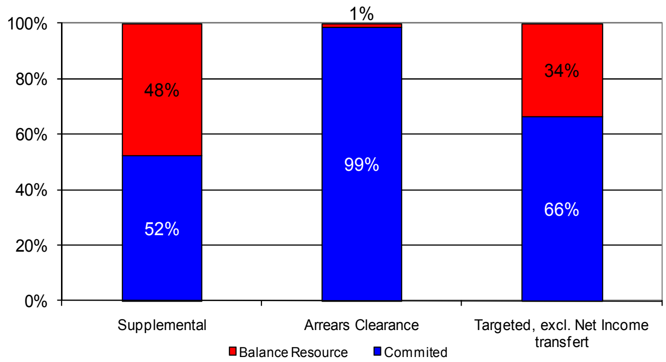
Table 5: Fragile States Facility Resources by Pillar

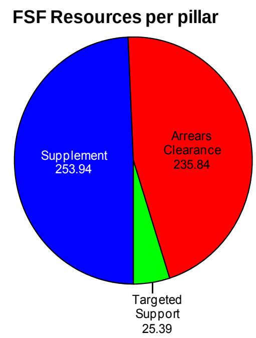
Source / Window	*ADF- 11 Allocation*	*PCCF Carry-Over*		*Earnings From PCCF Resources*	*ADB Allocation From 2008 Net Income*	*Total Resources*
		ADF	*ADB*			
I.Supplemental	253.94					253.94
II.Arrears clearance	129.10	102.94	62.70	13.72		308.46
III.Targeted Support	25.39				60.00	85.39
Total Resources	**408.43**	**102.94**	**62.70**	**13.72**	**60.00**	**647.80**

Note: PCCF = Post-Conflict Country Facility

3.30 **FSF Commitments under Pillar I:** As of end-July 2009, eight of nine potentially eligible countries (Burundi, Central Africa Republic, Comoros, Democratic Republic of Congo, Côte d'Ivoire, Guinea-Bissau, Liberia, Sierra Leone and Togo) had been assessed[13] as having met the two-stage eligibility criteria for Pillar I resources. Accordingly, more than UA 133 million (or about 52 percent) of Pillar I resources were committed to these countries (Figure 8). Resources from Pillar I of the FSF support vital operations in complement to countries' regular PBAs. Consistent with ADF-11 strategic priorities, these resources were primarily approved for funding governance reforms (particularly in the area of public finance systems) and infrastructure projects. The overall goals of these reforms are the development of credible country public financial management systems and enhanced transparency and accountability in the use of public sector resources. To further improve harmonization and manage risk, the Fund is working with the World Bank, the European Union and the International Monetary Fund in a joint approach to budget support in fragile states. In two countries (Liberia and Guinea-Bissau), FSF resources were approved to support agricultural and health-related infrastructure programs crucial to the recovery of these economies. Annex IV shows the category of operations funded under Pillar I of the FSF. UA 62.89 million of the total committed resources in Pillar I had been disbursed by July 2009 for a disbursement rate of 47 percent. The Fund would not have been able to finance these vital economic recovery operations without FSF supplemental resources.

Figure 8: Fragile States Facility Resources Utilization and Total Resources per Pillar
(Resources on right in UA millions)





3.31 **Under Pillar II,** Togo and Côte d'Ivoire were the only countries eligible for arrears clearance during the ADF-11 cycle. Working closely with the other donors, including the Bretton Woods Institutions, the FSF provided critical support for the arrears clearances of these two countries for a total of UA 255.54 million of which UA 232.60m were ADF resources (99 percent of total ADF Pillar II resources of UA 235.84 million (Figure 7). This support enabled both countries to

[13] These assessments are contained in Board of Directors-approved Country Strategy Papers (CSPs), Joint Assistance Strategy (JAS) papers (usually prepared with the World Bank), Mid-Term Review Reports of CSPs or specific Information Notes or Country Briefs.

normalize relations with the Bank Group and the Bretton Woods Institutions and gain access to additional resources to support their socioeconomic recovery programs. The arrears clearance program has also paved the way for these countries to qualify for debt relief assistance under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). Togo and Côte d'Ivoire reached the HIPC decision point shortly after the clearance of their arrears.

3.32 As requested by the Deputies, **Pillar III** was designed to offer a limited pool of resources, to countries with extremely weak public financial management and administrative systems for technical assistance (mainly through secondments), capacity building, service delivery through non-sovereign actors, and knowledge and management skills building on issues relating to fragility and conflicts. Thus far, this technical assistance has helped countries elaborate their post-crisis or transitional development programs and has facilitated training for senior government officials, especially those involved in macroeconomic and financial management. Technical assistance is also enabling the Bank, in partnership with the country and other donors, to fund relevant economic and sector work in fragile and conflict-affected countries, including needs assessments. As at end-July 2009, technical assistance and capacity building were provided to 14 fragile states for a total amount of UA 16.80 million or 66% of resources made available during the ADF replenishment (18 percent of Pillar III after the transfer of UA 60 million from 2008 net income) (Figure 7). Additional operations for an amount of UA 10.8 million had been under preparation (see Annex V). It was on account of the rapid commitment of Pillar III resources (initially UA 25.39 million) that the Boards of Governors approved the allocation of an additional UA 60 million from the Bank's 2008 net income in May 2009.

3.33 Besides coordinating Bank-wide activities in support of fragile states, the Fragile States Unit has also strengthened partnerships with regional and non-regional organizations at both the headquarters and the country levels. These organizations include the World Bank, the International Monetary Fund, the United Nations Development Programme, the United Nations Development Programme Bureau for Crisis Prevention and Recovery and the European Commission. They also include the Organisation for Economic Co-operation and Development-Development Assistance Committee International Network on Fragility and Conflict, which brings donors and partner countries together to examine key bottlenecks and good principles and practices in peace-building and state-building support activities and generate consensus around fundamental objectives and goals that could guide national and international partners when engaging in these spheres. Through the Fragile States Unit, the Bank was also instrumental in preparing the 2008 Accra High Level Forum's Roundtable 7 on Situations of Fragility and Conflict and is assisting in following up on the agreements reached in the Accra Agenda for Action. The Bank is also forging partnerships with regional institutions in Africa, particularly the African Union and the UN Economic Commission for Africa.

3.34 All operations funded by the FSF use a Result Monitoring Logframe to track progress in the operations' implementation and the associated development outcomes and results. Data and information obtained from the logframes for various operations are consolidated and used to assess results for each window of the FSF. These results will later be integrated into the ADF-11's Results Measurement Framework. As at June 2009, however, most operations funded by the FSF were new, so had been under implementation for relatively short period of time. Still, Pillar II's objectives of restoring macroeconomic and financial stability have to some extent already been met in Togo and Côte d'Ivoire.

4. Cross-Cutting Themes

4.1 Synergies between the Fund and selected Bank Group activities have been strengthened, most notably in the private sector area, as evidenced by the sharp increase in the Bank's private sector approvals in ADF countries. They have also been substantially strengthened in the knowledge and voice area, with the Bank's expanded role as the voice of ADF countries during the ongoing financial crisis. Bank expertise in the agriculture and social sectors has been invaluable in responding expeditiously to the food and financial crises.

Synergies Between the Fund and the Bank's Private Sector

4.2 There are many synergies between ADF activities and the private sector, foremost among which is the key role played by the Fund's core operational priorities in the development of the private sector. By investing in infrastructure and regional integration and by supporting the macroeconomic, regulatory and financial sector governance of ADF countries, as well as by strengthening anti-corruption frameworks and fostering greater transparency, the Fund finances key pillars of the investment climate of ADF countries (Box 5). In the infrastructure sectors, combined ADB-ADF operations are being developed in 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 enterprises. 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 Organization for the Development of the Gambia River Basin's initiative to develop hydropower projects. To further increase private sector infrastructure investments, the Fund is working on a guarantee proposal under ADF that is of crucial importance. In addition, the Fund is reviewing several operational policies, including those on enclave projects and non-concessional borrowing, to facilitate greater support to ADF countries. Finally, strong ADB countries serve as regional hubs and have a positive impact both directly and through spill-over effects on the economies of neighboring ADF countries. This impact is particularly marked for ADF countries with high volumes of trade with their neighbors and for which access to sea routes takes place primarily via neighboring countries.

Box 5: Recent Public-Private Partnership Approval: The Dakar – Diamniadio Toll Road project

This project, which was approved by the ADF Board of Directors on July 15, 2009, is the first toll road to be constructed as a public-private partnership in Senegal. The public-private option was retained by the Government of Senegal as an incentive for raising private interest in cofinancing, building and operating the motorway. The public-private partnership scheme was also an innovative way to complement limited government resources and budgets with private investments. The total length of the motorway between Dakar and Dianmiadio is 32 km, of which 20 km will be operated under a 30-year concession. Worthy of note is the fact that this highway is a component of the West African Dakar-Bamako-Ouagadougou-Niamey Road and is a major infrastructure link for the integration of Dakar and its port to the region. Despite its limited length, it constitutes a vital artery for the decongestion and the economic development of the Dakar area, where nearly 25 percent of the country's population generates 60 percent of the country's gross domestic product within an area equal to 0.3 percent of the national territory. The highway is a key component of the larger Urban Mobility Project initiated years ago for the City of Dakar. Concurrent with the construction of the motorway, an area of 165 ha with housing facilities, public utilities, and social, cultural and commercial facilities will be developed to accommodate up to 30,000 resettled people. The urban areas along the highway will be fully restructured to provide modern, safe and decent living conditions to dwellers who until then occupied the area informally. The closing of an uncontrolled dump site that has accumulated urban waste for the last 40 years is another component of the project. This dump site will be replaced by an alternative facility that uses modern techniques for the dumping and monitoring of urban waste. These collateral projects are financed by the World Bank, the French Development Agency and the Senegalese Government and include overall project implementation management.

Under the terms of the PPP, the private operator will assume 42 percent of the total cost of the motorway (UA 181 million excluding the costs of expropriations, which will be borne exclusively by the government). The Government of Senegal, the French Development Agency and the ADF will fund the balance. The ADF will contribute UA 45 million. The expected outcomes of the projects are severalfold. First, part ownership by a private operator will assure the durability of the infrastructure in the long term. Second, the mobility index in the Dakar area will improve, resulting in more efficient and productive activity and the reduction of poverty thanks to improved living conditions for several thousand inhabitants. Third, project construction will provide numerous jobs and business opportunities for the population and local small and medium enterprises. Fourth, more fluid traffic will reduce atmospheric pollution and harmful health impacts. Fifth, reduced government funding will free government resources for spending on other sectors. Sixth, the project will act as a model for other large infrastructure projects in the region that also call for private participation.

The project's multi-component character required the multilateral funders to collaborate closely in order to exploit possible synergies. ADF's assistance of the government in funding the public part of the initiative acted as a trigger to the overall project even as other donors wished to focus on urban restructuring components. From the project's inception in 2004, both windows of the Bank followed its development with keen interest. Ultimately the Private Sector Operations Department will have the opportunity to participate in the funding of the concessionaire senior debt arrangements, thus materializing valuable synergies within the Bank itself.

4.3 The Bank's <u>private sector development activities</u> in ADF countries are implemented through direct operations that target specific countries as well as through multinational operations and support for equity funds with an exclusive or partial focus on ADF countries. As part of its Strategy Update for the Bank's Private Sector Operations for 2008-2010, approved in January 2008, 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.[14] In 2008, Bank support for private sector operations in ADF countries exceeded the 40 percent target with an all-time high of more than UA 430 million, i.e. 42 percent, of the Bank's total private sector financing in ADF countries. Including multinational 2008 private sector operations in ADF countries, this brings the share of private sector operations benefiting these countries to UA 571 million, or about 55 percent of total private sector operations. In the first semester of 2009, this share increased to about 60 percent, with some UA 233 million in approvals (Table 6). It is expected that this percentage will be maintained or slightly exceeded throughout the year.

[14] In the past, the Bank has tended to focus the bulk of its private sector operations in middle-income countries. This distribution reflected the generally more conducive business enabling environment in middle-income countries and the lower inherent country risks.

4.4 The Bank Group is particularly mindful of the need to ensure the development effectiveness of its interventions in the private sector, particularly given the very sharp increase in the volume of its approvals, including in ADF countries. To address this concern, the Bank launched the innovative Ex-ante Additionality and Development Outcome Assessment (ADOA) framework in September 2008 with a view to recording and maximizing the expected effectiveness of all forthcoming private sector operations through an independent review of expected development outcomes and additionality conducted by the Chief Economist Complex. Through an iterative process, ADOA assessments inform project design and help the project team strengthen the quality at entry, the outcomes and the additionality of their projects where needed. Individual project ADOA assessments are systematically discussed by the Operations Committee and are circulated to the Board with the project package.

Table 6: Private Sector Lending Operations in ADF Countries, 2008-2009

	2008	First Half of 2009
National Projects in ADF Countries		
Number	18	4
Amount (UA millions)	433	74
Multinational Projects with ADF Country Share		
Number	9	11
Amount of ADF Country Share (UA millions)	138	159
Total Projects Relevant to ADF Countries		
Number	27	15
Amount (UA millions)	571	233
Share of total private sector lending	55 %	60 %

Knowledge Management and Development Activities.

4.5 The Bank approved its Knowledge Management and Development Strategy in July 2008.[15] The main objective of this strategy is to improve the quality and effectiveness of the Bank's operations. The strategy is based on the following four pillars: (i) generating knowledge to enhance development effectiveness; (ii) leveraging knowledge through partnerships; (iii) improving knowledge dissemination and sharing; and (iv) enhancing the application of knowledge. The strategy also seeks to establish the Bank as the preeminent voice on pressing development issues affecting the continent.

4.6 The Bank's knowledge role became especially critical over the last 2 years as the fuel, food and financial crises hit ADF economies. The global financial crisis raised new policy dilemmas and revealed the need for policy makers to share experiences, find creative solutions, and take collaborative action. In response, the Bank is strengthening and scaling up its advocacy role by reinforcing its analytical capacity; intensifying detailed information-gathering at the country, sector and regional levels on an ongoing basis; strengthening collaboration and partnerships with other multilateral development banks and development stakeholders; and generating policy suggestions that are tailored to countries' circumstances and needs. The Bank is drawing upon the resources from this exercise to help clients integrate lessons and equip themselves with information to weather the crisis and adapt their development strategies.

4.7 In 2008 and 2009, the Bank also significantly expanded its role as the voice and honest broker of ADF countries in the global arena. The Bank organized a meeting of ministers of finance and central bank governors on November 12, 2008, in Tunis, which resulted in the establishment of the Committee of Ten African Finance Ministers and Central and Regional Bank Governors (C-10). Since then, the C-10 has met in Cape Town (January 2009), in Dar Es Salaam (March 2009) and in Abuja (July 2009). The outcome of 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, a position which was presented by the Bank. The C-10 meeting held in Abuja further refined Africa's position for the G-20 Summit in Pittsburg (September 2009). The C-10 has called upon the Bank to further deepen its analytical work

[15] African Development Bank. April 2008. *The Knowledge Management and Development Strategy.* ADB/BD/WP/2007/141/Rev.2 and ADF/BD/WP/2007/113/Rev.2

and information monitoring on the financial crisis. To this end, a Bank-wide Financial Crisis Monitoring Group was established to closely monitor the impact of the financial crisis on African economies. Moreover, country offices and national research institutes throughout the region have been enlisted to collect and analyze detailed information at the country, sector, and regional levels on a consistent basis.

4.8 At the project level, the Fund provided technical and financial support to RMCs in order to help them improve their statistical systems in support of the results-based agenda. Among other outcomes, this will help RMCs monitor progress toward the Millennium Development Goals. During ADF-11, the Fund approved three regional operations in support of statistical capacity development for an amount of UA 29.14 million. The Fund has supported the implementation of the Reference Regional Strategic Framework for Statistical Development in Africa and the design of effective National Statistical Development Strategies in RMCs.

4.9 Finally, the Bank Group continued to consolidate its role as a primary source of key development data and analysis on the continent during 2008-2009. Its Data Platform launched in December 2007 is now fully operational and provides easy online access to a wide range of development data on RMCs. Flagship publications over the period include the *African Economic Outlook 2008/2009* on "Innovation and ICT in Africa," produced jointly with the Organisation for Economic Co-operation and Development and the United Nations Economic Commission for Africa; the *Africa Competitiveness Report 2009,* produced jointly with the World Economic Forum and the World Bank; and the *African Development Report 2009* on "Conflict Resolution, Peace and Reconstruction in Africa." They also include the tri-annual issues of the *African Development Review*[16] and several papers in the *Working Paper Series.*[17] The Bank also continued its Eminent Speakers' Program, inviting renowned figures to share their knowledge of contemporary development issues facing Africa.

Gender, Environment, Climate Change

4.10 To enable the Bank to deliver on its key cross-cutting commitments, in July 2008 the Board of Directors approved a fine-tuning of the Bank's institutional structure, creating the Gender, Climate Change and Sustainable Development Unit. This unit provides the Bank with a focused structure with clear linkages with the operations departments and generates the regional and global visibility necessary to promote the Bank's work in these three areas.

4.11 In the area of climate change, the Bank adopted the Clean Energy Investment Framework and the Climate Risk Management and Adaptation Strategy in March 2008 and April 2009, respectively[18]. The Clean Energy Investment Framework sets a comprehensive agenda for mainstreaming clean energy options, promoting investments in energy access and cleaner energy, and strengthening energy efficiency in all major sectors of the economy. The Climate Risk Management and Adaptation Strategy has the overall goal of ensuring progress towards the eradication of poverty and contributing to sustainable improvement in people's livelihoods, taking climate change into account. Consistent with these strategies, the Fund started supporting ADF countries in their efforts to mainstream climate change risk mitigation and adaptation issues in their National Development Plans. The Bank took a UA 8.11 million equity investment in the Evolution One Fund, the first specialized private equity fund to focus on the acceleration and deployment of clean energy and sustainable technologies across southern Africa to mitigate the effects of climate change. Between 20 and 40 percent of the Fund's investments are earmarked for ADF countries in the Southern African Development Community.

4.12 In addition, the Bank Group stepped up its role in helping ADF countries access available global and regional climate change funds by mobilizing up to UA 10 million through the Global Environment Facility to support climate adaptation activities in new and ongoing projects in ADF countries; by playing a key role in the set-up and administration of the Congo Basin Forest Fund (CBFF) (Box 6); and by supporting the Congo Basin's Ecosystems Conservation

[16] For more information, please refer to http://www.wiley.com/bw/journal.asp?ref=1017-6772

[17] Available at http://www.afdb.org/en/documents/publications/working-paper-series/

[18] African Development Bank. July 2008. *Clean Energy Investment Framework (CEIF)*. document ADB/BD/WP/2007/148/Rev.2. African Development Bank. May 2009. *Climate Risk Management and Adaptation Strategy*. document ADB/BD/WP/2009/71/Rev.1

Support Programme. This last program will both build the capacity of Commission des Forêts d'Afrique Centrale countries to reduce deforestation and enable those countries to earn carbon credits. The Fund is working in close partnership with other multilateral organizations to support various initiatives, such as the implementation of a pilot program on climate resilience of the Climate Investment Funds in Niger, Mozambique, and Zambia. Jointly supported by the World Bank, this program aims to mainstream climate resilience into development planning. In the private sector area, about 25 investment officers trained in clean development mechanism processes and clean development mechanism options are now starting to be included in the design of new projects in ADF countries (e.g. the Uganda Buseruka Hydropower Project approved in April 2009 and the Nigeria Nitrogenous Fertilizer Plant currently under preparation).

Box 6: 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 have placed 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 counters deforestation by building capacity in local populations and institutions in the Congo Basin and helping local communities develop lifestyles that will help preserve Congo Basin forests by financing relevant activities and projects, especially those in line with the Commission des Forêts d'Afrique Centrale's Convergence Plan. The CBFF works closely with other institutions and entities such as Central Africa countries, the Executive Secretariat of the Commission des Forêts d'Afrique Centrale, 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 new entity 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.

4.13 In the area of gender, an Updated Gender Plan of Action (UGPOA, 2009-2011) was approved in June 2009 with the objective of promoting the sustainable and equitable economic empowerment of men and women. The UGPOA supports three areas of intervention: (i) investment activities for the promotion of women's economic empowerment; (ii) institutional capacity and knowledge building; and (iii) governance and policy reform for strengthened gender mainstreaming in RMCs. Implementation of the UGPOA started with the development of a series of reference checklists for task managers in each main sector. In addition, country Gender Profiles have been completed or will be completed for Comoros, Eritrea, the Gambia and Liberia in 2009, and are scheduled to be completed for the Central African Republic and Chad in 2010. These profiles act as a repository of information on gender in each RMC and inform the programming and policy decisions of Bank and RMC staff. The Bank has also adopted Key Performance Indicators to monitor the implementation of gender mainstreaming in its lending products. In the private sector, the Bank Group has financed a flagship private sector women's empowerment project in two ADF countries: the Growth Oriented Women Entrepreneurs (GOWE) project (Box 7).

Box 7: Growth Oriented Women Entrepreneurs project

The Growth-Oriented Women Entrepreneurs (GOWE) project is one of the Bank's key gender projects and is being implemented in Cameroon and Kenya through private sector operations. The project aims to facilitate affordable financing for women-owned enterprises by reducing collateral requirements and enhancing the credit assessment capacities of partner banks; creating positive credit records when the loan is repaid; and encouraging banks to provide longer-term loans. The project is expected to contribute to the following goals: (i) women's expansion and development; (ii) the creation of employment; and (iii) institutional capacity building of businesswomen's associations and other participating partners.

At least 400 women entrepreneurs are expected to benefit directly from the project in each country. In Cameroon, the Bank has committed a partial credit guarantee facility of Euro 10 million to two commercial banks for the benefit of GOWEs and has mobilized additional UA 347,000 from the Fund for African Private Sector Assistance to finance technical assistance and capacity building activities. Since September 2007 when project funds were committed, participating local banks have provided loans worth UA 218,700 to GOWEs; 159 individuals representing different partner organizations and groups have been trained in business plan development skills, gender awareness and membership management, and technical issues related to finance and credit. Similarly in Kenya, the Bank has committed a partial credit guarantee facility of UA6.5 million (November 2006) and additional UA 1 million ADF Technical Assistance Fund resources (ADF-10 carve out) to finance technical assistance activities. Thirty three guarantees amounting to UA 631,000 have been approved and have leveraged loans worth over UA 1 million for GOWEs who would otherwise not have benefited from such financing. In addition, 312 individuals from different partner organizations have been trained in leadership, technical skills and gender awareness programs. Furthermore, the Bank's investment of UA6.5. million is expected to leverage debt financing of UA 50 million to women entrepreneurs in Kenya. The project has contributed to the creation of 133 new jobs for beneficiary GOWEs.

Agriculture, Natural Resources Management, Social and Human Development.

4.14 The Fund continued to provide targeted assistance in selected niches in the areas of agriculture, natural resources management, and social and human development through 15 operations for a total amount of UA 322 million (Table 7). The niches include infrastructure and other targeted operations that provide direct benefits to rural communities, and agro-industrial development with a special focus on developing public-private partnerships.

4.15 In response to the food crisis, the Bank approved the African Food Crisis Response (AFCR) in July 2008. The AFCR provides a framework for accelerating support to RMCs affected by increased food prices and is projected to inject approximately UA 496.57 million in the short term and UA 1.4 billion in the medium to long term, in Africa's agriculture sector. These resources will be made available from the realignment and restructuring of existing agricultural and non-agricultural portfolio's, an allocation from the ADB's Surplus Account and budget/balance of payment support operations. Approvals under AFCR for ADF countries represented UA 302.45 million in 2008 and UA 113.16 million in 2009, i.e. a total of UA 415.61 million or 84 percent of the target under the AFCR short-term measures. As of end-July 2009, the total amount disbursed was UA 271.01 million. AFCR interventions are designed to contribute to efforts to (i) reduce the vulnerability of Africa's poor to high and unstable food prices; (ii) catalyze broad-based growth through increased agricultural productivity, market participation, and strengthened government policies for sustainable agricultural development; and (iii) strengthen government capacity to foster an enabling environment for sustainable growth in agriculture, including private sector-driven growth. As of end-July 2009, 29 ADF countries had benefited from the AFCR intervention and about 2.1 million beneficiaries, of which 34 percent were women, had received agricultural inputs and materials. The AFCR short-term measures have positively impacted the use of improved inputs and the production of food crops in the beneficiary RMCs. As a result, preliminary estimates of crop productions indicate substantial increases between 2007 and 2008-2009.[19]

[19] Rice: from 159,530 metric tons to 715,400 metric tons; maize: from 182,170 metric tons to 3.55 million tons; sorghum: from 146,750 metric tons to 644,680 metric tons; and millet: from 66,700 metric tons to 215,000 metric tons. NERICA seed production also increased from 1,400 metric tons to 10,840 metric tons over the same period

Table 7: Summary of ADF-11 Agriculture and Natural Resources Management Operations

	Count	*Amount*
Agriculture	12	248.82
Environment	3	74.00
Grand Total	**15**	**322.82**

4.16 In the area of human development, the Fund has provided selective support to develop human capital through strengthened and effective education, health and social protection systems (Table 8). By sector, the Fund's support is broken down as follows: 57 percent in higher education and skills building, 31 percent in poverty reduction and social protection, and 13 percent in health. This sub-sector distribution is consistent with the prioritization of higher education and skills building set forth in the ADB's Medium-Term Strategy. In higher education and skills building, the Fund provided UA 95 million in loans and grants to Guinea-Bissau, Kenya, Rwanda, Uganda, and a regional operation. In the area of poverty reduction and social protection, support was provided to Burundi, the Central African Republic, Djibouti, and Malawi for a total of UA 51.82 million. A regional operation in an amount of UA 15 million and a supplementary loan to Guinea-Bissau financed by the FSF in an amount of UA 6 million were provided to support the eradication of river blindness and improve Guinea-Bissau's health infrastructure.

Table 8: Summary of ADF-11 Approved Social and Human Development Operations

	Count	*Amount*
Education	4	95.00
Health	2	21.00
Social	5	51.82
Grand Total	**11**	**167.82**

5. Implementation Challenges and the Fund's Response

5.1 The challenges faced in the implementation of ADF-11 have been primarily twofold: (i) continuously adapting the Fund's support to the changing needs of ADF countries as a result of the financial and economic crisis; and (ii) testing the policy features of the new ROs and fragile states frameworks on the ground.

Adapting ADF's Support to the Changing Needs of ADF Countries in Light of the Economic and Financial Crisis

5.2 The context of impressive international and regional growth rates during which ADF-11 was negotiated has given way to a **devastating global financial and economic crisis**. ADF's clients have not been spared from the impacts of this crisis, which have caused average annual growth rates to fall from 5.9 percent in 2008 to less than 3 percent in 2009. This is below the rate of population growth, so for the first time in more than a decade, income per head is declining. The growth deceleration, which is primarily driven by external factors such as falling commodity prices, deteriorating terms of trade, declining export revenues, lower remittances, and sluggish foreign direct investment, is jeopardizing the progress that ADF countries have made in recent years and is demanding exceptional measures on the part of development partners.

5.3 On March 4, 2009, Management presented to the ADF Board of Directors a paper on the Bank's proposed response to the economic impacts of the financial crisis.[20] According to analyses carried out by the Bank, ADF countries will need special assistance in the following areas: (i) budget support that offsets falling commodity prices, exports, remittances, terms of trade, and tourism and fills gaps in public expenditure programs; (ii) financing for key

[20] African Development Bank. March 2009. *Bank Response to the Economic Impact of the Financial Crisis*. ADF/ADB/WP/2009/32.

infrastructure projects; and (iii) support to private sector development by leveraging the ADF. Two factors were identified as crucial to permitting the Bank Group to help ADF countries weather the crisis: increasing the Bank Group's capacity to deliver and enhancing the flexibility of Fund policies with a view to being more nimble and reactive to ADF countries' changing needs. The Board endorsed Management's proposals which were elaborated and further discussed with Deputies on the margins of the Annual Meetings in May 2009 in Dakar.[21]

5.4 **Increasing the Bank Group's delivery capacity**: As agreed at the time of the ADF-11 negotiations, the Bank has been implementing a set of reforms to improve its delivery capacity, the quality of its interventions and its institutional focus on results. Consistent and sustained implementation of Bank reforms, particularly in the area of streamlined and improved business processes, has already borne fruit and allowed the institution to respond to requests of RMC assistance by (i) processing significantly more operations during the first half of ADF-11 than ever before and (ii) adjusting pipelines and fast tracking operations to help client countries combat the effect of the crisis. The sharp increase in ADF commitments and disbursements illustrates these efforts. The greater delivery capacity of the Bank Group is discussed in more detail in the ADF Mid-Term Review papers, "Impact of Institutional and Business Process Reforms on Programming and Delivery" and "Progress in Implementing the ADF-11 Results Measurement Framework."

5.5 **Enhancing the flexibility of the ADF Policy Framework***:* Given the fixed pool of resources allocated to ADF-11, significant focus has been placed on enhancing the flexibility of the ADF policy framework to channel ADF resources to client countries in a more flexible and expeditious manner. Two main immediate policy enhancements were sought under the **ADF Fast Track Response Program**:

- *Relaxation of the country allocation front-loading limits for countries affected by the crisis*: Under the ADF's usual resource allocation framework, the first year allocation, representing one third of the 3-year envelope, is firm, while the allocations for the 2 remaining years are indicative. Front-loading of up to 50 percent of the allocation of the following year is allowed. Thus, in the first year, maximum front-loading is 50 percent and in the second year it is 83 percent. Front-loading is only allowed upon due justification and with the approval of the Operations Committee. As a response to the financial crisis, Management allowed front-loading beyond these limits if such front-loading was justified to alleviate the impact of the crisis. By end-2009, it is expected that fifteen ADF countries will have used their allocations in full to safeguard priority expenditures, including essential infrastructure and investments in fragile states.
- *Restructuring the current ongoing portfolio* is a primary instrument for reallocating resources by reprioritizing activities. Drawing lessons from previous emergency responses, such as the CFA Franc Devaluation program[22] and the Bank response to the food crisis, the Fund relaxed its restructuring rules in order to allow resources within a country portfolio to be shifted to areas outside the original scope of the projects and/or to new areas on the basis of a 3-day circulation to the Board. Taking into account today's severe economic and financial circumstances, the Board also authorized the possibility to change instrument from investment loans to fast-disbursing instruments more appropriate in times of crisis, subject to a 14-day document circulation. Finally, the reprogramming of resources in sectors and for purposes outside the existing pillars of the country assistance strategy was facilitated.

5.6 **Three additional measures** are being examined as per Deputies' guidance in Dakar:

- *Relaxation of the 25 percent cap on PBLs*: Since PBLs are the Fund's primary instrument for emergency response, Deputies' views were sought in Dakar and agreement in principle was reached that should the crisis require such flexibility, Management would propose to the Board an increase of the ceiling applicable to PBLs from 25 percent of the aggregate country allocations (the PBA envelope) to 30 percent of this envelope. The

[21] African Development Fund. May 2009. *Strategic Note to Deputies.*
[22] African Development Fund. March 1994. *Note on the Bank Group's assistance to member countries of the CFA Franc zone and the Comoros following the devaluation of their currencies.* ADF/BD/IF/94/47.

current 2009-2010 pipeline suggests that the share of PBLs will fall below the 25 percent ceiling by the end of the cycle. However, ongoing dialogue with RMCs indicates that there is solid demand for crisis-related PBLs to replace investment projects. This could lead PBLs to exceed the 25 percent ceiling. Management is closely monitoring this ratio and will report to the Board of Directors if demand exceeds the 25 percent threshold.

- *Revision of the reallocation policy for cancelled resources*: A revision of this policy is being developed and will allow the Bank to reallocate a percentage of cancelled resources to the country portfolio and the remainder to the general pool during the current ADF-11 cycle, rather than in the next cycle through the Advance Commitment Authority, as is currently provided by the Advance Commitment Authority framework. This will free up resources for direct new commitments. The total volume of loans and grants available for cancellation as of end-June 2009 stood at UA 460 million.
- *Development of new products*: New products that better leverage private sector resources and create solutions that are more tailored to individual countries are presently being developed. One of the sharp anticipated effects of the financial crisis on low-income countries is the reversal of private interest in markets perceived to be high-risk. Key infrastructure links in ADF countries currently under consideration for public-private partnership development could be at risk of postponement because of the perception of very high risk in the current credit market and/or because of simple liquidity constraints. The Bank's current pipeline of potential public-private partnership projects in ADF countries is worth over UA 15 billion and comprises projects in the areas of energy (58.8 percent), transport (39.1 percent) and water (2.1 percent). To mitigate risk and promote private investment in higher risks sectors and low-income countries, the Fund is in the process of developing a guarantee instrument in line with the practice of other multilateral development banks[23]. The main features of this new guarantee product will be discussed informally at the Board in October 2009. Management also intends to better use existing instruments and leverage Bank and Fund resources. ADF resources will be used to enable governments to take an equity participation in public-private partnership infrastructure companies in which the Bank's private sector window provides long-term debt financing with other private cofinanciers. This arrangement has been successfully employed in the power sector by both the World Bank and the Asian Development Bank and has allowed both institutions to greatly leverage scarce concessionary resources. Finally, taking into account the increased diversity of Bank clients and their changing needs, the Fund is preparing an overhaul of its investment lending instruments to increase their responsiveness and disbursement speed. Programmatic, risk-based instruments will also be proposed.

Testing the ADF-11 Framework for Regional Operations and Fragile States

5.7 During the 15-month implementation of ADF operational policies related to the RO envelope and the FSF, a number of concerns about features of these frameworks have come forward. These features may require adjustments going into ADF-12.

5.8 **Regional operations**. Under the Strategic and Operational Framework for Regional Operations adopted in 2008, financing modalities were agreed upon to reinforce the link between PBA set-asides and country performance and commitments: the financing of one third of the cost of ROs from the affected RMCs' country allocations (cost-sharing) was adopted subject to a 10 percent cap for RMCs with an ADF-11 allocation of UA 20 million or less. In addition, it was agreed that limited and selective support from the RO envelope would be provided to RPGs on a case-by-case basis, including through grants and without cost-sharing. While the framework has been implemented as agreed with Deputies (paragraph 3.21), implementation has highlighted a set of issues.

5.9 Cost-sharing can easily result in the absorption of a significant portion of the PBAs of countries involved in ROs, which can bring tension in the prioritization of national and regional projects. This tension is particularly acute in fragile states and countries with small ADF allocations that do not exceed UA 20 million. Closing the financing plan for RO projects has thus been challenging as a result of cost-sharing. With half of ADF countries receiving 3-year

[23] World Bank, Asian Development Bank and Inter-American Development Bank

allocations below UA 50 million (including 14 countries receiving allocations below UA 20 million) and growing domestic financial needs in the midst of the financial crisis, the cost-sharing requirement has diverted some countries from participating in ROs rather than promoting their ownership of ROs. The step increase in cost-sharing from the 10 percent cap for countries with allocations of less than UA 20 million to an uncapped 33 percent for countries with allocations of more than UA 20 million can be very regressive for RMCs that are at the cut-off threshold but fall in the latter group of countries. In these situations, it is possible that the change in the cost-sharing requirement outweighs the benefits of a marginal increase in allocation above the UA 20 million threshold and thus undermines the performance-linked incentives of the PBA system (Table 9). Furthermore, the co-existence of various cost-sharing requirements for countries participating in the same RO has created uneasiness between countries and risks that the cost (and components) of a project is allocated between countries in such as way as is inconsistent with those countries' effective project stake.

Table 9: Illustrating Cost-Share Implications of a UA 30 Million Regional Operation for a Country at the Cut-Off Margin

Country	*PBA Allocation*	*Cost-Share*
A	UA 19.9 million	UA 2.0 million
B	UA 20.1 million	UA 9.9 million
Difference	UA 0.2 million	UA 7.9 million

5.10 For RPGs, as indicated in section 3.21, the Fund has developed a three-step filtering framework with a clear set of criteria to select and prioritize RPG projects that can benefit from the limited resources available without cost sharing under the ADF RO envelope. Despite the adoption of these detailed criteria, however, demand has remained extremely high, in part because the RO envelope resources approved for RPG projects are fully additional to a country's allocation (they do not require cost sharing). In the absence of a cap or set-aside applicable to RPG projects and because of the complexity of comparing projects in different areas, this high demand has made it difficult for Management to prioritize between RPGs that are mostly in the agriculture, environment, health, education and governance sectors and other ROs in priority areas identified in the Bank Regional Integration Strategy (mainly infrastructure). The lack of clarity about the exact amount of available resources for RPG projects has complicated the effective planning and prioritization not only of RPG operations but also of operations in other sectors, since they compete for the same pool of resources. Following a long iterative process, RPGs representing 24 percent of the RO envelope were authorized by the Operations Committee to benefit from the exemption to the cost-sharing rule. Detailed proposals to address this issue will be presented as part of the ADF-12 consultations.

5.11 **Fragile States**. A range of issues is emerging as the Fragile States Facility tries to cope with the unpredictable nature of some of the demands and the rapidly changing landscape of certain fragile states. The main challenge facing the FSF going forward is how to include additional countries as beneficiaries of Pillars I and II in the absence of available resources for new countries.

5.12 Regarding the arrears clearance window, three countries, Somalia, Sudan and Zimbabwe, are experiencing serious external debts burdens and acute arrears clearance problems. No funds for arrears clearance were programmed for these countries under the ADF 11 cycle, despite the fact that they were on the original list of Post-Conflict Country Facility-eligible countries approved by the Deputies and the Board of Directors. The case for Zimbabwe is particularly urgent, given that substantial re-engagement by the Bank will require the clearance of its arrears, which amounted to UA 298.03 million as of May 2009. Both the World Bank and the International Monetary Fund have programmed resources for arrears clearance for Zimbabwe. Sudan's arrears stood at UA 150.64 million in May 2009, of which UA 93.75 million were to the ADB and UA 56.89 million were to the ADF. Somalia's arrears amounted to UA 49.61 million in May 2009, of which UA 11.99 million were to the ADB, UA 36.18 million were to the ADF and 1.44 million were to the Nigeria Trust Fund. Other than the mobilization of additional resources from donors, the FSF framework does not provide for a mechanism to accommodate urgent demands to support new countries under Pillars 1 and 2.

6. Conclusion and Recommendations

6.1 The ADF-11 period is exceptional because of the economic and financial crisis that has started to hit African countries on an unprecedented scale. The Fund and the Bank have had to modify their activities significantly in order to adapt to these new circumstances. This has meant becoming more reactive and responsive to ADF countries' demands, front-loading approvals, restructuring existing portfolios and pipelines, and advising ADF countries on how to respond to the crisis while representing them in international fora. A snapshot of the implementation of ADF-11 at the time of this Mid-Term Review shows that Fund resources have been used in a manner that is consistent with the strategic priorities and principles agreed with Deputies and that there is a robust pipeline and demand for remaining resources. However, a number of challenges have been identified in the course of 15 months of implementation; Management is actively working on resolving them. Detailed proposals will be made to Deputies as part of the ADF-12 consultations.

6.2 Deputies are invited to take note of the progress noted in this report and provide guidance to Management on the implementation challenges discussed therein.

Annex I: The ADF's Response to the Economic Impacts of the Financial Crisis

Enhanced Support to ADF Countries

In order to tailor its assistance to ADF countries struggling with the impacts of the financial crisis, the Bank has inventoried areas in which support would be especially useful: budget support to offset shortfalls due to falling commodity prices, exports, terms of trade and tourism; tailored financing for key long-term, development-oriented infrastructure projects; and private sector development assistance through the leveraging of the ADF to attract cofinancing. Regional departments are engaged in consultations with RMC governments to review and adjust operational programs if necessary. Coordination with sister institutions has been deepened to ensure a leveraged response and maximize impacts on the ground.

Portfolio Restructuring and Reprogramming

A number of specific measures have been approved to streamline and accelerate the process of restructuring countries' portfolios. Furthermore, it is now possible for changes of instrument—for example from an investment loan to a fast-disbursing operation that is more appropriate in times of crisis—to be approved by the Board on the basis of 14-day document circulation. This shorter circulation time (14 days) can also be applied to new budget and balance of payments support loans designed in response to the crisis. In restructuring portfolios and reprogramming projects, priority is given to areas affected by the financial crisis. If, due to the increased use of the budget support instrument, the 25 percent ceiling on policy-based operations comes within view, Management will present the Board with a proposal to raise this ceiling to a maximum of 30 percent.

Front-Loading and Accelerated Disbursement

In response to requests from ADF beneficiary countries, the Bank is speeding up the commitment of ADF resources, making use of flexibility in the ADF rules which allow use of up to 83 percent of each country's total 3-year PBA in the second year of operations. By the end of 2009, the Bank expects to have committed 77 percent of the PBA resources, 94% of the Ro envelope and 76% of the Fragile States. The possibility of accelerating the disbursement of already ongoing operations is being examined and implemented wherever expedient.

Cancellable Resources

Progress has been made to reduce the overall number and amount of cancellable public sector operations, both to improve the portfolio performance of individual countries and to ensure that non-disbursing resources become available for high priority uses. The Bank is exploring ways to accelerate the reduction of the remaining cancellable loan balances and reprogram the freed-up resources as optimally as possible.

Emergency Liquidity Facility and Trade Finance Initiative

Non-sovereign clients in ADF countries are eligible to access the new instruments introduced by the Bank in response to the financial crisis: the Emergency Liquidity Facility (total size US$ 1.5 billion, with a maximum of US$ 50 million per eligible financial institution or project) and the Trade Finance Initiative (US$ 1 billion). The Emergency Liquidity Facility addresses the urgent liquidity requirements of clients that face financial difficulties as a result of the withdrawal of international investors, the cancellation of credit lines to financial institutions, and closure of debt and equity markets. It offers bridge financing to cover funding gaps until normal funding conditions are restored. The Trade Finance Initiative provides finance for trade flows, such as trade finance lines of credit which international commercial banks are no longer willing to provide. In a second phase, the ADB will examine the feasibility of introducing products and services that provide more comprehensive assistance for trade finance and facilitation along the lines of the programs offered by the International Finance Corporation and other international financial institutions. Both the Emergency Liquidity Facility and the Trade Finance Initiative help private enterprises in ADF countries maintain their business levels despite the crisis. For example, the United Bank of Africa (Nigeria) recently received US$ 150 million in financing under these two initiatives. The Emergency Liquidity Facility loan will be used to compensate shrinking lines of credit in foreign currency and minimize disruptions to the United Bank of Africa's operations, which include financing for projects related to infrastructure, small and medium enterprises and corporate development. The loan under the Trade Finance Initiative will fund the United Bank of Africa's ongoing trade finance operations, including the provision of short-term credit for import and pre-export finance, in Nigeria and in the fragile and post-conflict countries in West Africa in which the institution currently operates.

Annex II: Emerging Results of Governance Operations Under ADF-11

Budget Support

1. No ADF-11 governance operation has yet been finalized. However, results are already being demonstrated in some countries at the level of public financial management and the social sector.

2. ADF-11 budget support in **Tanzania** has strengthened efforts to tackle corruption, for example by reinforcing the public procurement process. Budget support has helped deliver marked improvements in the compliance of procurement entities with the recent Procurement Act (39 percent compliance in 2007 and 71 percent in 2009). In **Comoros,** public financial management has been strengthened through the adoption of a modernized legal framework concerning treasury management, budget management and accounting, partly as a result of ADF's PBL.

3. In **Liberia**, the Fund's first budget support grant has strengthened public financial management and improved fiscal policy design and management by enhancing the capacity of the Ministry of Finance's Macro-Fiscal Unit and implementing a 3-year, medium-term fiscal framework for 2009-2010 in 2008 that allows for revenue planning and other fiscal measures. It also helped generate domestic revenues by making operational a one-stop service facility in customs in May 2009. In addition, it strengthened the government's procurement and audit functions. A revision of the 2005 Public Procurement and Concessions Act, harmonized with petroleum and mining laws, is now before Cabinet. The implementation of audits by the General Audit Commission has progressed significantly since August 2008.

4. In **Malawi**, the Fund's budget support has contributed to improving audit coverage from 50 percent of ministries in 2004-2005 to 60 percent in 2007-2008 and reducing the time lag in submitting audit reports to Parliament from 18 months in 2006-2007 to 10 months in 2007-2008. In the **Gambia**, the budget support program (complemented by an institutional support project) contributed to reducing the number of years of backlog of audited accounts from 7 years in 2007 to 2 years in 2009. A similar improvement has been witnessed in **Sierra Leone.**

5. In **Cape Verde**, Fund budget support is implementing a set of policies to modernize the administration and improve the country's competitiveness as an international business and service hub. For example, the program contributed to the installation of a "Citizen's House", which centralizes, rationalizes and facilitates all essential administrative procedures necessary to start a new business. This measure has resulted in a significant reduction of the time required to register and start a new enterprise from 52 days in 2007 to 1 day in 2008.

6. In **Rwanda**, with the Fund's budget support, the Rwandese Cabinet recently adopted a series of commercial laws (the Bills on Companies Act and bills regarding solvency, negotiable instruments, business registration, and competition and consumer protection) that, once enacted, will create a more favorable environment for private sector growth. The outcomes are expected to improve Rwanda's ranking in the World Bank's *Doing Business* report from 158 in 2006 to 145 by December 2010, an advance of 13 positions.

7. Targeted budget support in **Ethiopia** helped achieve significant results in public financial management and social outcomes. Higher block grant budget and on-track disbursements have allowed the regions to increase overall spending by 36 percent, with spending on basic services (excluding roads) growing at 28 percent. The health sector has experienced a surge in spending, registering a 63 percent increase over the first 6 months of 2007-2008, while the education, agriculture and water sectors experienced increases of between 20 and 23 percent. There has been an ongoing increase of 23 percent in the coverage of continuous audits between 2006-2007 and 2007-2008. Additional audits covered 88 local administrations, 50 of which had already been audited in the past, bringing the number of offices under continuous audit to 497 (approximately 66 percent of the total number of offices). Budget literacy has also improved as a result of training provided to approximately 1200 participants from regional and local governments, civil society and the media.

Institutional Support Programs

8. Institutional support programs financed under ADF-11 have not yet been completed, but early progress in building capacity for better financial governance is nonetheless apparent. For

example, in the **Gambia**, the Fund is strengthening aid coordination by supporting the newly-created Project Management and Aid Coordination Directorate of the Ministry of Finance and reviewing institutional arrangements for aid coordination.

9. In **Burundi**, ADF's support has resulted in enhanced capacity in external auditing (15 external auditors have been trained), internal auditing (30 inspectors have been trained), debt management (through technical assistance and logistical support), fiscal policy management and macroeconomic analysis (156 officers of the Ministry of Finance have been trained), budgeting and planning (248 officers of the Ministry of Planning have been trained). The Fund has also helped strengthen public financial management by adopting a modernized legal framework that includes a new organic finance law, procurement legislation and the reestablishment of an internal audit function at the Ministry of Finance.

Annex III: List of ROs and RPGs

Indicative 2008-2010 Regional Operations Pipeline - May 2009							
Status	Sector	Project	Cost Sharing	Total ADF	RO envelope loan	RO envelope grant	PBA alloc.
Approved	*INFRA*	***Etude de développement du site hydroélectrique d'Inga et des interconnexions électriques associées Total***	*Cost Sharing*	***9.51***		6.34	3.17
Approved	*INFRA*	***Bujumbura-Rugombo-Ruhwa-Ntendezi-Kibuyé-Gisenyi road project Total***	*Cost Sharing*	***100.00***	0.00	67.48	32.52
Approved	*INFRA*	***Programme de Facilitation du Transport sur le Corridor Bamenda-Mamfe-Ekok Abakaliki-Enugu Total***	*Cost Sharing*	***204.80***	125.76	16.16	62.88
Approved	*INFRA*	***NELSAP Interconnexion Project (PROJET INTERCONNEXION DES RESEAUX ELECTRIQUES DES***	*Cost Sharing*	***99.77***	16.88	50.04	32.85
Approved	*GOV*	***Development of Payment System (ECOWAS- West African Monetary Institute- WAMI) Total***	*RPG*	***14.00***	0.00	14.00	0.00
Approved	*HUMAN DEV*	***River Blindness Control and Eradication Support Project Total***	*RPG*	***15.00***	0.00	15.00	0.00
Approved	*GOV*	***Multinational Statistical Capacity Support Programme for the Implementation of Results Management Agenda in***	*RPG*	***17.84***	0.00	17.84	0.00
Approved	*GOV*	***Support for Capacity Building - The African Economic Research Consortium (AERC) Total***	*RPG*	***1.00***	0.00	1.00	0.00
Approved	*INFRA*	***Etude du pont entre Kinshasa et Brazzaville Total***	*Cost Sharing*	***5.00***	0.00	3.53	1.47
Approved	*AGRIC&ENVIR*	***Lake Chad : Protection des ressources naturelles & developpement durable Total***	*RPG*	***30.00***	0.00	30.00	0.00
Approved	*INFRA*	***Ethiopia-Djibouti Supplementary Loan Total***	*Small Cap*	***20.92***	3.47	15.07	2.38
Approved	*HUMAN DEV*	***Support to African University of Science and Technology Total***	*RPG*	***12.00***	0.00	12.00	0.00
Approved	*HUMAN DEV*	***Multi-country Demobilisation and Reintegration Programme (MDRP) Total***	*RPG*	***14.00***	0.00	14.00	0.00
Approved	*AGRIC&ENVIR*	***Congo River Basin and Natural Resources Management Project Total***	*RPG*	***32.00***	0.00	32.00	0.00
Approved	*INFRA*	***Mombassa-Nairobi-Addis Phase II Road Project Total***	*Cost Sharing*	***210.00***	105.00	0.00	105.00
Approved	*INFRA*	***Nacala Road Corridor (Phase I) Total***	*Cost Sharing*	***117.03***	78.02	0.00	39.01
	INFRA	***Nacala Road Corridor (Phase II) Total***	*Cost Sharing*	***54.00***	36.00	0.00	18.00
	AGRIC&ENVIR	***Buguesera Natural Resources Management Project Total***	*Cost Sharing*	***30.00***	0.00	20.00	10.00
	INFRA	***Appui institutionnel à la CUA (Communaute de l'Union Africaine) (Renforcement des capacités (Formation,***	*RPG*	***2.00***	0.00	2.00	0.00
	INFRA	***Etude d'aménagement hydro-électrique de Souapite Total***	*Cost Sharing*	***2.00***	0.00	1.33	0.67
	INFRA	***Etudes du Barrage hydroélectriques de FOMI et les lignes de transport associées Total***	*Cost Sharing*	***3.96***	0.00	2.64	1.32
	INFRA	***Chemin de Fer Issaka-Kigali Study Total***	*Cost Sharing*	***4.95***	0.00	3.30	1.65
	INFRA	***Projet Routier Ouesso-Sangmélima/Doussala-Dolisie Total***	*Small Cap*	***117.60***	33.20	66.40	18.00
	INFRA	***Regional Trade Facilitation - ATI (Phase 1) Total***	*Cost Sharing*	***40.02***	23.20	3.48	13.34
	INFRA	***BOALI 3 power project and interconnection with DRC Total***	*Small Cap*	***23.00***	0.00	20.20	2.80
	HUMAN DEV	***Support to Regional ICT Centres of Excellence Total***	*RPG*	***10.00***	0.00	10.00	0.00
	INFRA	***Lake Victoria Water and Sanitation Program* Total***	*RPG*	***50.00***	0.00	50.00	0.00
	AGRIC&ENVIR	***CLIMDEV Total***	*RPG*	***25.00***	0.00	25.00	0.00
	INFRA	***Regional Trade Facilitation - ATI (Phase 2) Total***	*Cost Sharing*	***26.10***	12.76	4.64	8.70

Annex IV: Operations Financed by Pillar I of the Fragile States Facility

Table IV-1

Country	Project Name	FSF Pillar I (in UA millions)	
		Committed	Disbursed
Côte d'Ivoire	Economic and Financial Reform Support Program (Projet d'appui au réformes économiques et financières)	45.87	45.87
Burundi	Second Phase of the Economic Reform Support Program (ERSP-II)	12.00	7.00
Central African Republic	Socio-Economic Promotion of Vulnerable Groups	8.00	
Comoros	Support to Economic and Financial Reforms (Projet d'appui au réformes économiques et financières)	2.00	
Guinea-Bissau	Health Development Program Support Project (Health II)	6.00	
Liberia	Public Finance Management Reform Support Program I	12.39	5.00
Liberia	Agriculture Sector Rehabilitation Project	0.50	
Sierra Leone	Port Loko-Lungi Road	26.26	
Sierra Leone	Economic Governance Program I	10.00	
Togo	Projet d'appui à la gouvernance	10.00	5.02
Total		**133.02**	**62.89**

Table IV-2

Country	Project Name	Pillar I Operation Scheduled for Board Presentation in ADF-11
Burundi	Projet Routier Gitega-Ngozi	34.00
Central African Republic	Projet d'appui à la réhabilitation des infrastructures rurales (PARIR)	3.85
Comoros	Water Supply and Sanitation	8.00
DRC	Electricity II	60.00
Sierra Leone	Water Supply and Sanitation Project	6.50
Total		**112.35**

Annex V: Operations Financed by Pillar III of the Fragile States Facility

Country	Operations Approved and Being Processed for Implementation	Cost of Operations (in US$ thousands)
Chad	Economic and sector work Technical assistance to the Ministry of Health	315.0
Comoros	Public sector and institutional support projects Technical assistance in water supply and sanitation	1,000 1,000
Côte d'Ivoire	Support for capacity building in governance	3,078.5
Democratic Republic of the Congo	Economic and sector work in the decentralization of public administration	38.0
Djibouti	Economic and sector work on private sector development Legal technical assistance in mining (1) Legal technical assistance in mining (2)	77.0 23.0 400.0
Guinea	Governance support, technical assistance and economic and sector work	2,400.0
Guinea-Bissau	Operation to support regional integration	2,800.0
Liberia	Technical assistance in debt management, macroeconomic framework, independent revenue authority, accounting revenue audit, and procurement advice Technical assistance to Ministry of Agriculture Legal adviser pending the set-up of the Africa Legal Support Facility	1,000.0 750.0 250.0
Sierra Leone	Implementation Support to Government PCU	100.0
Somalia	Technical assistance and capacity building in public finance management	2,000.0
Sudan	Policy Advisor, Ministry of Finance Economic and sector work on taxation, procurement laws and public finance management regulation Training and human resource development in public financial management Support for monitoring the implementation of the Poverty Reduction Strategy Paper	100.0 500.0 1,400.0
Togo	Technical assistance for supporting youth employment	110.0
Zimbabwe	Technical assistance to ministries of finance, planning and investment promotion and the Office of the Comptroller and Auditor General	6,000.0
Burundi	Technical assistance for public investment program Technical assistance for macroeconomic framework Support to Ministry of Finance for implementation of public finance management Technical and financial feasibility study in mining sector	700.0 600.0 700.0 300.0
Total Cost		**25,641.5**