

Strategic Directions for ADF-12

ADF-11 Mid-Term Review
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Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADF-11	Eleventh General Replenishment of the African Development Fund
ADF-12	Twelfth General Replenishment of the African Development Fund
GDP	Gross Domestic Product
MTR	Mid-Term Review
PBA	Performance-Based Allocation
RO	Regional Operation

STRATEGIC DIRECTIONS NOTE

1. Introduction

- 1.1 This Note is intended to propose the broad directions for the Twelfth Replenishment of the African Development Fund (ADF-12) and solicit Deputies' guidance as to priorities and objectives going forward with a view to framing the replenishment consultations. Management's view is that the African Development Fund (ADF or the Fund) should maintain existing priorities and consolidate progress while making selected adjustments in response to the changed global environment.
- 1.2 A decade of sustained growth in African economies has now come to a halt, with gross domestic product (GDP) growth forecast at 1.6 percent for 2009. This growth rate implies the first decline in per capita income for a decade. The value of exports from Sub-Saharan Africa shrank by 38 percent this year after 6 years of double-digit growth. While there are signs that a global recovery is underway¹, uncertainty as to the pace and sustainability of medium-term recovery remains.
- 1.3 These circumstances mean that ADF-12 will need to address both short-term challenges (crisis recovery) and long-term development objectives (the achievement of Millennium Development Goals (MDGs) and increased African competitiveness) to varying degrees, commensurate with specific country circumstances. The ADF-12 period will be critical to scaling up support to ADF countries in order to (i) protect hard-won progress achieved over previous decades and prevent the reversal of significant gains as a result of the financial crisis, and (ii) deepen and boost assistance to sustain the levels of growth required to reach the MDGs by 2015 and secure the best possible position for African economies in the global arena.
- 1.4 ADF is better positioned than ever to meet these challenges. A priority now, therefore, is to consolidate the Fund's comparative advantage in areas that remain critical for African competitiveness and where official development assistance has been lagging. Learning and adapting from the ADF's current achievements and experiences and accelerating the Fund's ambitious repositioning will further improve ADF's capacity to enhance development outcomes. During ADF-12, Management proposes to extend its assistance to ADF countries by building up and consolidating ADF priorities and by enhancing the Fund's flexibility in policy frameworks, operations, and resource allocation so as to provide fast and effective assistance during the transition and recovery periods.
- 1.5 With the broad directions elaborated below, the Fund wishes to elicit Deputies' views on expanded engagement in core priorities and enhanced flexibility of the Fund's framework. This Strategic Directions Note is organized as follows: Section 2 outlines broad core directions for ADF-12; Section 3 discusses ways to enhance the flexibility of the Fund's framework; and Section 4 outlines institutional plans to strengthen broad-based capabilities.

2. Operational Focus

Consolidating the ADF's Position in Core Operational Priorities

- 2.1 Management will undertake during 2010 a formal review of the Bank corporate strategy (Medium-Term Strategy) and will explore the possibility of narrowing further the Fund's priorities.
- 2.2 Despite improved investment climates and more prudent macroeconomic policies, one development area continues to demand tremendous attention throughout Africa: infrastructure. As the binding constraint to African competitiveness as well as agricultural development, infrastructure, particularly transportation, energy and water, will remain ADF's

¹ The International Monetary Fund has forecast a real GDP growth rate of 4.1 percent for Sub-Saharan Africa in 2010

core operational priority during the ADF-12 period. A new emphasis will be placed on linking interventions to efforts related to climate change.

- 2.3 In governance, renewed attention will be paid to strengthening the monitoring system and the framework to systematically track and report on the implementation of all governance projects, particularly policy-based lending. Additionally, support for fraud and anti-corruption capacity building will be intensified.
- 2.4 As regional integration is increasingly acknowledged as a driving force to improve productivity and competitiveness, ADF will continue to expand and support Regional Operations (ROs) through its ROs envelope including natural resources management interventions which support climate risk management. Special attention will also be given to the selection and prioritization of ROs and Regional Public Goods (RPGs) through the development of regional integration strategies supporting Regional Economic Communities . In acknowledgment of the complexity of ROs, in particular of the long lead time necessary to prepare projects and produce results (this often requires two replenishment cycles), the Fund will introduce tailor-made results measurement indicators.
- 2.5 In Fragile States, learning from the lessons of the current framework and ongoing operations, ADF will monitor budget support operations more closely and increasingly through a joint donor monitoring group. The challenge for the Fund and other donors will be to balance the development impact of budget support to support peace while also focusing on fiduciary concerns. The arrears clearance window will need to be significantly expanded to support normalization of key re-engaging countries such as Zimbabwe.

Targeting Niches

- 2.6 Regarding cross-cutting themes, the Fund will continue to maximize the synergy within Bank Group activities. Following the review of the Private Sector Strategy scheduled by year end, a proposal to better support ADF countries with tailored new instruments will be put forward.
- 2.7 The Bank will further expand its role as the voice of ADF countries in key regional issues. Having acted as ADF countries' representative in generating policy positions for key international fora such as the G20, the Bank will move to consolidate its position as the honest broker of ADF countries in the global arena.
- 2.8 Targeted support in agriculture will be provided through investments in water management, water storage infrastructure, feeder roads and other types of rural infrastructure in support of agricultural development. Going forward, the Fund will continue to pursue its niche approach and coordinated assistance, leveraging partnerships while retaining the flexibility to react promptly in crisis situations such as the food crisis thanks to its pool of agricultural expertise.
- 2.9 In climate change, emphasis will turn to implementing the newly adopted Clean Energy Investment Framework and ramping up expertise in this area through coordinated partnership with key players. The Bank will use its voice and legitimacy to help RMCs generate a strong African voice for the post-Copenhagen climate change action plan and ensure that African countries are active participants in and the beneficiaries of available funding. Measures will be put in place and mainstreamed to ensure that all investments made by ADF are climate proofed and assessed to ensure that they contribute to low carbon growth and are adapted accordingly. Moreover, the Fund will continue to promote gender equality by supporting interventions which provide equal gender access to employment and financing.

Do Deputies agree to a broad strategy of consolidation for ADF-12 including greater selectivity?
In general, do Deputies view selectivity and the balance of instruments as appropriate?

3. Responsive Policy Framework

- 3.1 To respond to the dual challenges of ADF-12, i.e., cushioning the impact of the global economic crisis and scaling up assistance for sustained African growth and recovery, the Fund would be best served by increasing the flexibility of its policy framework. This would position it to assume a leadership role in its core priorities and respond to short-term challenges.

ADF Resource Allocation

- 3.2 In implementing the agreed framework, it has become evident that significant challenges in its design and application remain. Management intends to bring forward proposals to increase the predictability of aid notably by tackling the volatility of the portfolio component and adjusting programming and frontloading rules. The small size of allocations for at least half of ADF countries causes operations to be fragmented into small tranches to accommodate annual performance-based programming and frontloading rules.
- 3.3 Continued support to special initiatives such as ROs and fragile states outside the PBA framework will be necessary. Revisions of the current cost-sharing framework will be envisaged to address the uneasiness created by the co-existence of various cost-sharing requirements for countries participating in a given project. Such revisions will also clarify the level of resources dedicated to RPGs.
- 3.4 The crisis and the difficulty of crafting an appropriate and flexible response to the crisis have also underlined the need to pay closer attention to vulnerability and perhaps develop more agile and flexible allocation rules for emergency situations such as a Crisis Facility. Some Deputies have signaled interest and concern about the relaxation of the PBA framework.
- 3.5 Deputies' guidance on how best to proceed would help Management develop possible adjustments. Proposals will also be brought forward with regard to the Debt Sustainability Framework and non-concessional borrowing along the lines of the flexibility recently approved, but with due consideration to issues specific to African low-income countries. Finally, as selected countries are nearing graduation, a graduation policy that takes individual country circumstances into account will be developed to tailor the mix of concessional and non-concessional resources directed to countries transitioning from ADF to ADB status.

Flexible Policy Framework

- 3.6 Flexible operations (instruments and policies) will be central to the Fund's support of its regional member countries for the remainder of the global crisis. While some countries may still be experiencing the lagged and prolonged effects of the crisis, others are poised to rebound. To support this diverse group of clients, the Fund must be equipped with a responsive set of instruments that provide quicker and more customized solutions.
- 3.7 Beyond its limited set of instruments, the Bank will look at expanding and developing programmatic instruments that cater to the nature and specificities of its core priorities. For example, instruments for infrastructure projects will help sustain assistance at key stages of sector reforms. In addition, specific fast-disbursing instruments with shorter maturities could be developed to respond to short-term challenges. The Bank will be guided by the experience of other international financial institutions where demand was strong, in developing appropriate products for its clients.
- 3.8 Drawing on its response to the food and financial crises, when it used portfolio restructuring increasingly as a flexible tool, the Bank will propose permanent changes to the reallocation of cancellable resources (including the removal of perceived constraints) to promote broader use of these resources in the context of active portfolio management.

Do Deputies see merit in drawing on lessons learned from the financial crisis by making greater flexibility a more permanent feature of the PBA system?

How should an appropriate equilibrium be found between flexible allocation and operational planning on one hand, and a balance between performance and vulnerability on the other?

4. Delivery Capacity

- 4.1 Management proposes deepening, refining and scaling up the ongoing institutional reform agenda during the ADF-12 period while paying particular attention to enhancing key areas including decentralization, corporate services and budget framework implementation.
- 4.2 Quality at entry processes will be further strengthened by extending and mainstreaming the readiness review to all ADF country strategies and operations. The environmental and social safeguards policies and procedures of the Bank Group will be updated, leading to the inclusion of new areas and strengthened compliance mechanisms. The ADF-12 Results Measurement Framework will be fine-tuned with specific indicators for ROs and emerging priorities. Most importantly, new web-based results reporting systems piloted under ADF-11 will be expanded throughout the institution.
- 4.3 Working from a Decentralizing Roadmap expected to be finalized in December 2009, the Bank will refine its decentralization vision and practices drawing on lessons learned from its 23 Field Offices and maintaining its focus on priority areas, including the delegation of authority, the institution of an appropriate human resources skills mix and the respect of clear implementation benchmarks. The Bank will conduct a robust communications effort to further mainstream decentralization within the Bank's corporate culture.
- 4.4 The Bank will maintain its recruitment momentum while transitioning its HR function to a more client and partnership-focused model. A new career development program, accompanied by a new staff performance system linking staff evaluation to specific department objectives, will be fully implemented, helping to instill a results culture. Continuous effort will be made to bring in critical skill mix in core areas and broadening the skill base to levels sufficient to ensure sustained expertise. Our aim is to create a clear pathway for staff between contributing to corporate goals and career progression.

Do Deputies agree with the proposal to consolidate and refine ongoing institutional capacity reforms during ADF-12?

Do Deputies have specific guidance with respect to the deepening of agreed institutional reforms?