

# **Proposed Adjustments to the Regional Operations Framework**

**Discussion Paper**

ADF-12 Replenishment  
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**AFRICAN DEVELOPMENT FUND**

## Executive Summary

Much of the African continent is characterized by economic fragmentation, high transaction costs, low levels of productivity and competitiveness, and poor infrastructure (both hard or physical infrastructure and soft infrastructure such as harmonized policies and efficient institutions). Effective regional integration is indispensable to promoting Africa's growth and reducing poverty. As the lead financier of regional integration and regional public goods in Africa—providing approximately 20 percent of all official development assistance for regional operations since 2003—the African Development Fund is well placed to respond to high client demand for regional operations. To guide its operations and programs, shareholders adopted a new Strategic and Operational Framework for Regional Operations in March 2008 and a Regional Integration Strategy in February 2009. These two documents set out (i) the Bank Group's strategic priorities, namely regional infrastructure, regional public goods, and capacity building; (ii) the eligibility requirements for regional operations; (iii) selection and prioritization criteria based on development impact and strategic alignment; and (iv) financing modalities that strengthen the link between financing and countries' performance and commitment.

The ADF has implemented this approach with success during ADF-11. More than UA 1.3 billion will have been approved for 28 regional operations by the end of 2010: 83 percent in infrastructure operations and 20 percent in regional public goods. These investments include support for critical transport links, such as the Mombasa-Nairobi-Addis Ababa road on the North-South Corridor, and the development of regional power pools, such as the interconnection of the Nile Equatorial Lakes countries. Together with ongoing regional operations financed under previous ADF cycles, these investments are expected to improve 34 million people's access to transport on 22,000 km of newly constructed or rehabilitated roads and install 2,500 megawatts of power-generating capacity and more than 1,000 km of transmission lines. ADF-11 has also contributed to combating the negative effects of climate change by financing appropriate investments to conserve the Congo River Basin and the Lake Chad Basin in Central Africa.

While trends and initial results are encouraging, the Fund faces challenges common to all donors involved in regional operations. Regional operations are more complex than national operations and require a longer and more thorough design and preparation process, more elaborate coordination, and closer monitoring. Nonetheless, the implementation and performance of the ADF's portfolio has improved since ADF-10, thanks both to lessons learned under ADF-11 and to improved business procedures, better quality at entry, better monitoring and strengthened oversight. Moving forward, the ADF will continue to improve its project design, enhance institutional arrangements, and undertake more frequent supervision and regular reporting on its regional operations.

For the ADF-12 period, in light of high demand from regional member countries, Management proposes to maintain the ADF's strategic selectivity in regional infrastructure, capacity building, and regional public goods. The indicative list of proposed ADF-12 regional operations amounts to UA 5.49 billion and includes operations that build upon progress achieved during ADF-11, such as filling the missing links on the North-South transport corridor and in the West African Power Pool. The list also features new initiatives, like the East African Power Pool and regional public goods such as forest conservation to support Africa's low carbon growth and adaptation efforts. With demand for ADF support likely to exceed available resources, the Fund will continue to leverage resources by (i) mobilizing cofinancing, (ii) encouraging the private sector and other actors to invest in regional integration in Africa, and (iii) tapping into third-party trust funds.

Consistent with Deputies' guidance at the ADF-11 Mid-Term Review meeting to "consolidate and innovate," Management proposes no major changes to the ADF policy framework for regional operations, but instead proposes enhancements which will facilitate program efficiency, effectiveness and results. Specifically, Management recommends

1. to increase the size of the regional operations envelope;
2. to strengthen the selection and prioritization process for regional operations;
3. to further enhance the quality at entry and results measurement of regional operations;
4. to more systematically monitor, review and report on regional operations; and
5. to strengthen the financing mechanism for regional operations by maintaining existing cost-sharing principles and introducing a cap on the amount of resources that can be spent on regional public goods operations at 15 percent of the regional operations envelope.

Management requests Deputies' views and endorsement of these proposals.

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## Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADF-8	Eighth 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
CPPR	Country Portfolio Performance Rating
EASSY	East African Submarine Cable System
KfW	Kreditanstalt für Wiederaufbau-Entwicklungsbank
NEPAD	New Partnership for Africa's Development
PIDA	Program for Infrastructure Development in Africa
REC	Regional Economic Community
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
RMF	Results Measurement Framework
RO	Regional Operation
RPG	Regional Public Good
STAP	Short-Term Action Plan
UA	Units of Account

## PROPOSED ADJUSTMENTS TO THE REGIONAL OPERATIONS FRAMEWORK

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### 1. Context

- 1.1 Regional integration is a fundamental element of the African Development Bank Group's core activities and one of the African Development Fund's core priorities. This strategic focus on regional integration is well aligned with African countries' own strong commitment to advancing the regional agenda that is indispensable to their trade, growth and the reduction of poverty. Competitiveness and productivity can be improved—and significant economic and welfare gains achieved—by addressing bottlenecks in both hard, or physical, infrastructure and soft infrastructure such as regulatory frameworks, harmonization of policies and efficient institutions. For example, the November 2009 Africa Infrastructure Country Diagnostic Study finds that the most efficient and cost-effective way to expand Africa's power capacity is through regional power pools.
- 1.2 In this context, the main objective of the ADF's regional operations (ROs) is to help African countries achieve economic integration and improve the welfare of their people. The ADF is delivering on this objective: it is the lead donor for regional integration and regional public goods (RPGs) in Africa and has provided approximately 20 percent of total official development assistance for ROs since 2003.<sup>1</sup> In recognition of this achievement, a new Strategic and Operational Framework for Regional Operations (the RO Framework) was agreed during the ADF-11 replenishment and adopted by the Board of Directors in March 2008<sup>2</sup>. A new Bank Group Regional Integration Strategy was approved a year later.<sup>3</sup> Together, the two documents form the basis for the Bank Group's involvement in ROs, setting out (i) the Bank Group's strategic priorities: regional infrastructure, RPGs, and capacity building; (ii) eligibility requirements for ROs; (iii) selection and prioritization criteria based on development impact and strategic alignment; and (iv) financing modalities that strengthen the link between financing and countries' performance and commitment (see Annex I).
- 1.3 The ADF's ROs achieve regional integration goals in ways that national operations cannot emulate. For example, the Mombasa-Nairobi-Addis Ababa road project will help to fill more than 700 km of missing links on this corridor and is expected to boost trade between Ethiopia and Kenya by 500 percent, from US\$ 48 million in 2007 to US\$ 200 million by 2017. Likewise, the Nacala transport corridor (Mozambique, Malawi and Zambia) is expected to increase cargo handled by Mozambique's Nacala port from 0.9 million tons in 2009 to 1.6 million tons in 2015 and to raise Mozambique's global competitiveness index from 3.1 in 2009 to 4.1 in 2015. At the same time, the Bank recognizes that benefits can be realized from transboundary ecosystems such as the Congo River Basin in Central Africa. Protecting an additional 1 percent of forests in the Congo Basin would preserve about 230 million tons of carbon, or about one-third of the United Kingdom's annual greenhouse gas emissions, which is worth more than US\$ 500 million in today's carbon market.
- 1.4 As we enter ADF-12, the financial crisis has reduced African countries' access to sources of funding and exacerbated the financing gap for infrastructure, leading to greater demands on international financial institutions. Concurrently, growing demand for the ADF's regional reflects the importance of the continent's regional agenda. The indicative list of proposed ROs for ADF-12 is approximately Units of Account (UA) 5.49 billion, a more than a three-fold increase over the amount expected to be approved under ADF-11. As under ADF-11, over 80 percent of the list revolves around infrastructure, particularly infrastructure for transport and energy. Inter alia, ADF-12 has received requests to finance power interconnection in Central, East and West Africa; transport and trade facilitation projects in Central and West Africa; bridges, roads and railways in East and Southern Africa; and hydropower and solar energy plants in various locations. There is also demand for capacity-building and other non-

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<sup>1</sup> African Development Bank. 2009. *The New Role of the African Development Fund in the Changing Aid Architecture*. Paper for the ADF-11 Mid-Term Review.

<sup>2</sup> African Development Bank. 2008. *Strategic and Operational Framework for Regional Operations* (ADB/BD/WP/2008/31, 19 February).

<sup>3</sup> African Development Bank. 2009. *Bank Group Regional Integration Strategy 2009-2012* (ADB/BD/WP/2009/24, 12 February).

investment activities.

- 1.5 Climate change is an additional, vital element of ROs to be addressed under ADF-12. Africa stands out as the continent that releases the least amount of greenhouse gases into the atmosphere: in 2007, per capita emissions of CO<sub>2</sub> for all of Africa were 1 ton compared to a world average of 4.3. But while the continent's contribution to global warming is insignificant, Africa bears a disproportionately large part of the adverse impacts of climate change. It is estimated that climate change could cost Africa about 2 percent of its gross domestic product in the near term and reverse the gains the continent has made towards achieving the Millennium Development Goals. Speaking at the Copenhagen Conference on behalf of African countries, Prime Minister Meles Zenawi underlined that Africa can be part of the solution to climate change, and proposed that additional funding for adaptation and mitigation in Africa should be made available and channeled through the ADB Group.
- 1.6 At the ADF-11 Mid-Term Review meeting, Deputies agreed to consolidate the current policy framework during the ADF-12 period, deepening and refining it where necessary, on the basis of acquired implementation experience. Although the RO Framework and the Regional Integration Strategy apply to the entire Bank Group, this paper will focus on its implementation by the ADF and will only include information on other Bank Group activities where relevant. Section 2 of the paper discusses the implementation of the RO Framework to date and highlights some of the successes, challenges and areas for improvement going forward, Section 3 presents the indicative list of proposed ROs for 2011-2013. Section 4 proposes an enhanced RO Framework for ADF-12, including adjustments for Deputies' consideration, and Section 5 concludes.

## **2. Implementation of the Regional Operations Framework Under ADF-11**

- 2.1 This section takes a snapshot of the ROs undertaken under ADF-11 and reviews the ROs' progress at three levels. This review is followed by a discussion of the challenges faced in implementing ROs and measures that the Bank Group is taking in response. The section concludes by analyzing lessons learned from ADF-11 ROs and indicates work for ADF-12.

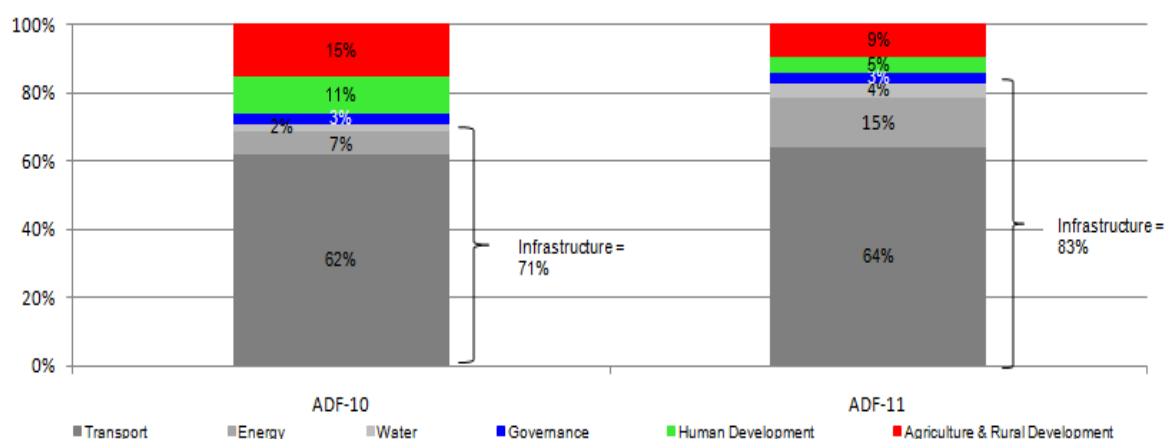
### ***Regional Operations Under ADF-11<sup>4</sup>***

- 2.2 Both the need and the demand for regional integration and ROs have increased in ADF countries over the past several ADF cycles. Recognizing this trend and the ADF's steadily improving capacity to deliver effective ROs, Deputies agreed to set aside a dedicated RO envelope, starting with 5 percent under ADF-8 and growing to 17.5 percent in ADF-11. Consequently, the Fund is now the continent's lead donor in ROs and complements the work of other institutions and bilateral donors. Under ADF-11, the RO envelope amounts to UA 965.27 million. Supplemented by cost-sharing from ADF countries' Performance-Based Allocations, total RO approvals amounted to UA 1.132 billion for 2008-2009. An additional UA 189 million is expected to be approved in 2010 (Annex II). Including these pipeline operations, 18 ADF countries are expected to participate in ROs under ADF-11. Of these countries, nine are expected to participate in more than one RO.
- 2.3 The Fund has successfully focused on the two strategic areas specified by the RO Framework: infrastructure and RPGs. First, under ADF-11, 16 of the 28 ROs expected to be approved by the end of the cycle will be in the infrastructure sector, representing 83 percent of total approvals by volume (Figure 1). The Fund's concentration on infrastructure has grown steadily over time.

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<sup>4</sup> Additional information, including maps of ROs, can be found in Annex II.

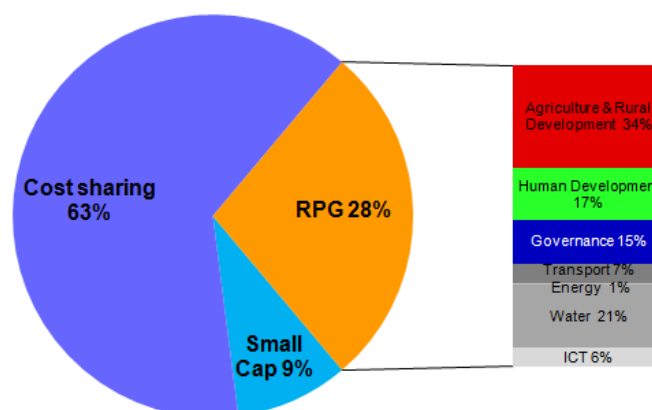
**Figure 1: Sector Distribution of Regional Operations Approved During ADF-10 and ADF-11 Including Pipeline, by Volume, as a Percentage of Total Approvals**



**Source:** African Development Bank

- 2.4 Second, 12 of the 28 ROs expected to be approved by the end of ADF-11 will be RPGs<sup>5</sup>. All RPGs are expected to be exempted from country cost-sharing. The costs of the RPGs (UA 268 million) will be fully financed by the RO envelope and will represent 28 percent of the RO envelope (20 percent of total approvals for ROs). RPGs take place in a variety of sectors, including agriculture, human development and governance (Figure 2). 72 percent of the RO envelope will be spent on operations with cost-sharing, including 9 percent for operations involving countries with a small performance-based allocation whose contribution is limited to 10 percent of their allocation.

**Figure 2: Regional Public Goods Approved Under ADF-11 (Including Pipeline), Compared to Cost-Sharing Operations, as a Percentage of the RO Envelope**



**Notes:** ICT=information and communication technology; RPG=regional public goods; small cap=the portion of regional operations that benefits countries with small allocations (these countries' cost-sharing contribution is capped at 10 percent of their allocation).

<sup>5</sup> A regional public good is a good, service or resource whose benefits are shared by a group of countries within a region, are non-rival (one country's consumption does not reduce the amount of goods available to others) and non-excludable (once a good has been provided to one country, no other country can be excluded from benefiting from that good). The RO Framework determines that selective support will be provided on a case-by-case basis to regional public goods that have a public dimension and a regional dimension, and where the Bank's role is to finance the initial stage of the process for generating the public good and aims at correcting disincentives that prevent the RPG from emerging or progressing toward the stage of production.



- 2.5 The Bank Group also undertakes and supports non-financing activities such as project preparation, capacity building, technical assistance, and training<sup>6</sup>. These activities are supported by the Bank's administrative budget as well as by trust funds. The Bank Group also operates in full cooperation and complementarity with other development partners in Africa, as illustrated by the Program for Infrastructure Development in Africa (PIDA), outlined in Box 1. The Bank Group also takes a leading role in implementing and monitoring the Aid for Trade initiative in Africa and promoting regional financial integration.

**Box 1: The Program for Infrastructure Development in Africa**

**The Program for Infrastructure Development in Africa (PIDA)** is a collaborative effort between the Bank Group, the African Union and the New Partnership for Africa's Development (NEPAD). The PIDA Study is financed by a broad range of donors, including the African Development Fund, the Nigeria Technical Cooperation Fund, the European Union, the UK Department for International Development, the African Water Facility, the NEPAD Infrastructure Project Preparation Facility, and the Islamic Development Bank. PIDA has **three main objectives** for 2030:

- (i) To establish a strategic vision, specific objectives and a policy framework for the development of regional and continental infrastructure in four sectors: energy, transport, information and communication technology, and transboundary water resources;
- (ii) To establish a prioritized continental/regional infrastructure development program by 2030 using the strategic framework; and
- (iii) To prepare an implementation strategy and process, including a priority action plan.

The PIDA Study will start in the first quarter of 2010 and is expected to last 18 months. During **Phase One**, an initial report on the four infrastructure sectors (to be delivered in mid-2010) will outline a program covering both physical investments and soft issues (policy harmonization, legal and regulatory frameworks, etc.). **Phase Two** will consist of consultation workshops at the regional and sector levels. The workshop will serve to draft the strategic framework, the infrastructure development program and the implementation strategy by the end of 2010. **Phase Three** will secure stakeholder ownership of the study and its results and will take place over 2011.

PIDA plans to incorporate the remainder of the NEPAD Short-Term Action Plan (STAP), which is currently being reviewed to identify constraints and suggest solutions. Over the 2002-2008 period, the Bank has financed 47 STAP projects/programs for a total of more than US\$ 2.43 billion, and has mobilized cofinancing of around US\$ 2 billion from other multilateral and bilateral donors including the World Bank, the European Investment Bank, the Development Bank of Southern Africa, l'Agence française de développement and Kreditanstalt für Wiederaufbau-Entwicklungsbank (KfW).

**Measuring Results: Tracking Progress of Regional Operations**

- 2.6 The progress of ROs is measured in four ways, each of which this paper discusses in turn: (i) regional-level outcomes; (ii) expected country-level outputs and outcomes; (iii) the ADF's institutional effectiveness; and (iv) RO portfolio performance. The challenges encountered during implementation are described next, as are the corrective measures already taken by the Bank Group. Proposals of measures for the ADF-12 period are presented in Section 4.
- 2.7 As of 1 January 2010, the Fund had an active portfolio of 60 regional public investment operations, the oldest of which had been approved in June 2001<sup>7</sup>. The cost of these operations totals UA 3.9 billion, of which the ADF is contributing nearly UA 2 billion. The annual disbursement rate for 2009<sup>8</sup> was 22 percent. This rate is similar to the disbursement rate for all ADF operations (21 percent)<sup>9</sup> and meets the Fund's corporate target for 2009.
- 2.8 ROs' performance is monitored through the Results Measurement Framework (RMF). The RMF establishes a methodology for measuring the progress of all ADF operations, including ROs, at three levels:
- Level 1: Progress on high-level regional outcomes (Tier 1)

<sup>6</sup> See the ADF-11 Mid-Term Review Discussion Paper *Progress Report on Core Operational Priorities*. October 2009. Helsinki, Finland.

<sup>7</sup> The Fund is also implementing an additional nine studies, four private sector operations and two institutional support projects, to which it is contributing UA 72.15 million.

<sup>8</sup> The disbursement rate is defined as the ratio of all 2009 disbursements to all undisbursed balances on 1 January 2009.

<sup>9</sup> The ADF's rate compares favorably to the International Development Association's disbursement rate for ROs in Africa.

- Level 2: ROs' contribution to operational outputs and intermediate outcomes (Tier 2a)
- Level 3: Institutional effectiveness and operational performance (Tier 2b)

2.9 **Level 1: Progress on high-level regional outcomes.** The RMF uses two indicators to assess progress toward greater regional integration: (i) Africa's share of global trade and (ii) ADF countries' trade with Africa. Between 2006 and 2008, regional integration indicators point to several positive trends (Figure 3). In particular, Africa's share of global trade grew from 2.85 percent to 3.41 percent, partly reflecting the commodity boom and food and fuel price increases. In terms of US dollars, ADF countries' trade with other African countries also increased by 12.6 percent, keeping up with the overall growth in global trade.

**Figure 3: Progress on High-Level Regional Outcomes**

Africa's Share of Global Trade (percent)			ADF Countries' Trade With Africa (as a percentage of global trade)		
2008	3.41		2008	0.15	
2006	2.85		2006	0.16	
Africa's Share of Global Trade (US\$ billions)			ADF Countries' Trade with Africa (US\$ billions)		
2008	1014.9		2008	43.0	
2006	674.0		2006	38.2	

**Source:** African Development Bank

2.10 **Level 2: ROs' contribution to development outcomes and outputs.** At the country level, many actors contribute to development outcomes, and the contribution of a single agency such as the Fund is best discerned in the outputs and outcomes of its ROs in its priority areas. These in turn contribute to higher-level outcomes. Table 1 details the contributions expected of 42 of the ADF's 60 ongoing ROs in their key areas of activity<sup>10</sup>.

**Table 1: Expected Outputs and Outcomes of 42 Regional Operations in Key Areas**

Selected Outputs and Outcomes	Quantity
<b>Transport</b>	
People with improved access to transport (#)	33,556,575
Roads constructed, rehabilitated or maintained (km)	19,551
Feeder roads constructed or rehabilitated (km)	2,350
Bridges constructed (#)	737
<b>Power</b>	
Transmission and distribution lines constructed (km)	1,027
Generating capacity installed (MW)	2,465
<b>Agriculture</b>	
Rural marketing and production facilities constructed or rehabilitated (#)	131
Additional agricultural production (ton)	3,371,310
Area of improved land use (land replanted, forested, landscaped, etc.) (hectares)	13,565,960
<b>Human Development</b>	
Health facilities constructed or rehabilitated (#)	214
Social facilities established or rehabilitated (rural schools, health centers, etc.) (#)	1,294
People benefited from training sessions (#)	290,153

**Note:** These outputs and outcomes do not represent the entire portfolio.

**Source:** African Development Bank

<sup>10</sup> The information is drawn from the logical frameworks of 42 ROs (out of the portfolio of 60 ongoing public investment operations) for which data were readily available. Because most ROs are still ongoing, this data is for expected outputs and outcomes rather than for actual outputs and outcomes.

- 2.11 Among other outputs, the ADF's ROs are expected to provide around 34 million people with new and upgraded regional transport corridors, improving connections and promoting intra-regional trade by reducing transport costs and the time spent crossing borders. In addition, more than 1,000 km of new transmission lines will help increase households' access to energy while decreasing costs. Support for training activities will improve the skills of 290,000 people, and 11 operations will promote RPGs, some of which address climate change. These RPGs include the Lake Chad Basin Sustainable Development Program (UA 30 million), the Congo Basin Ecosystems Conservation Support Program (UA 36 million)<sup>11</sup> and the Institutional Support to African Climate Institutions Project (UA 20 million). Operations such as these, while still at an early stage of development, underline that Africa can be part of the solution to climate change. Forest conservation projects in particular make a very cost-effective contribution to reduced global carbon emissions while at the same time improving the lives of the forest populations. Examples of ongoing ADF ROs are given in Box 2.

### **Box 2: Two Ongoing ADF-Financed Regional Operations**

#### Institutional Support to African Climate Institutions (UA 20 million)

This project, approved by the Board in November 2009, supports the ClimDev-Africa program, which aims to integrate climate change into developmental processes by enhancing the capacity of four African climate centers and African scientists to generate and disseminate relevant climate-related information to end users. The lack of this information currently undermines African decision makers' ability to incorporate climate variability and change into economic and development policies.

Expected outputs of the 3-year project include trained and knowledgeable African climate scientists; climate-related tools and data such as early warning systems, climate information systems, and downscaled climate models and scenarios; and improved end users' skills for integrating climate information into development planning. The project will benefit four regional climate centers; African climate scientists; health, water, agriculture and other practitioners who use climate-related information; and an estimated 480 million Africans in 25 countries who depend on climate-sensitive sectors. The information generated by the project will be disseminated through existing networks, nongovernmental and civil society organizations, and print and electronic media, including community radio stations that broadcast in local languages.

#### A Transport Facilitation Project: The Bamenda-Mamfe-Ekok-Mfum-Abakaliki-Enugu Corridor (UA 205 million)

Consistent with New Partnership for African's Development (NEPAD) objectives to develop corridors to foster regional economic integration and trade, the African Development Fund is helping to boost the efficiency of the logistic chain and improve the livelihood of populations along the Bamenda-Enugu transport corridor from Cameroon to Nigeria. The program's goal is to improve transport services, promote trade, and enhance cooperation between Central African Economic and Monetary Community and Economic Community of West African States countries in general, and between Cameroon and Nigeria in particular. The program will (i) develop and pave 90 km of road, reconstruct 109 km of road, and carry out periodic maintenance of 192 km of road, in part by building highway structures; (ii) rehabilitate and/or construct social and market infrastructure such as feeder roads, market sheds, and drying areas for agricultural products, and fence and rehabilitate school infrastructure; (iii) remove constraints to the free flow of traffic by building a common border checkpoint, limiting the number of checkpoints, and controlling axle load; and (iv) build the capacities of entities responsible for monitoring the implementation of the project. The program will benefit the 11 million inhabitants of the corridor (3 million in Cameroon and 8 million in Nigeria) by reducing transport costs and improving their access to services and markets. By 2013, average vehicle operating costs are expected to fall by 36 percent; travel time between Bamenda and Enugu to decrease from 8-12 hours to about 5 hours; fees paid by transporters to decrease by 40 percent and visa fees either to be reduced or suppressed; the average border crossing time to fall from 12 hours to 3 hours; the number of overloaded vehicles to be cut from 80 percent to 20 percent; the approximately 30 checkpoints between Bamenda and Enugu to be reduced to four; the average distance covered on foot to a motorable road or drinking water point to shrink from 5 km to 2 km; the school attendance rate to increase by 80 percent; and women's agricultural produce transportation and processing time to fall by 30 percent.

<sup>11</sup> See also the ADF-11 MTR Discussion Paper *Progress Report on ADF Core Operational Priorities*. October 2009. Helsinki, Finland.

- 2.12 **Level 3: Institutional effectiveness and operational performance.** The RO Framework specifies three indicators of institutional effectiveness (Table 2). The Fund has made progress in increasing the number of regional member countries (RMCs) with a regional integration strategy, with 22 countries covered by the two Regional Assistance Strategies currently in effect (one for Central and one for Southern Africa) and the Country Strategy Papers of an additional eight countries including a substantial section on regional integration. Also, the Fund's operations are well aligned with continental and regional initiatives, and many operations are part of a New Partnership for Africa's Development (NEPAD) or a regional economic community (REC) regional integration plan. While the share of these operations has not increased meaningfully over the past 3 years, they represent a sizeable 87 percent of RO financing by volume. Finally, the Fund has attracted more cofinancing, with 17 out of the 20 operations (85 percent) approved in 2008 and 2009 being cofinanced (Annex II).

**Table 2: Institutional Effectiveness of Regional Operations During ADF-11**

Indicator	Baseline Value 2005-07	Target Value 2008-09	Achieved as at December 2009
Percentage of regional member countries with an ADB regional integration strategy in either the Country Strategy Paper or the Regional Strategy Paper <sup>1/</sup>	26	50	57
Percentage of regional operations in NEPAD/regional economic community regional integration plans	57	67	57
Percentage of cofinanced regional operations	48	66	85














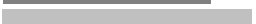


**Notes:** 1/ Baseline value year is 2007 and target year is 2009; NEPAD = New Partnership for Africa's Development

**Source:** Strategic and Operational Framework for Regional Operations, African Development Bank data

- 2.13 The operational performance of the Fund's RO portfolio indicates positive trends in a number of areas (Figure 4). The Fund strengthened its focus on ROs between 2005 and 2008 (the first years of ADF-10 and ADF-11, respectively), with the amount of resources approved for ROs increasing fivefold and the active portfolio quadrupling in size. Average RO size increased by 200 percent, reflecting greater selectivity and the pursuit of larger operations. RO implementation also improved: the percentage of projects supervised twice a year has increased from 27 to 36 (the corporate target for 2009 is 50 percent) and the number of problem projects has fallen by three percentage points to 10.6 percent <sup>12</sup>.

<sup>12</sup> This nearly meets the corporate target of 10 percent for 2009, and compares favorably with the International Development Association.

**Figure 4: Portfolio Performance of ADF Regional Operations, 2005-2008**

<b>Active portfolio (UA millions)</b>			
2008	1393.2		
2005	333.5		
<b>Approvals (UA millions)</b>			
2008	517.8		
2005	85.8		
<b>Average size of operations (UA millions)</b>			
2008	19.9		
2005	6.7		
<b>Disbursement ratio (%)</b>			
2008	11.2		
2005	13.6		
<b>Percentage of projects supervised twice a year</b>			
2008	36.4		
2005	27.3		
<b>Number of problem projects as percentage of operations supervised<sup>13</sup></b>			
2008	10.6		
2005	13.6		
<b>Number of potential problem projects as percentage of operations supervised<sup>14</sup></b>			
2008	30.3		
2005	36.4		
<b>Share of operations eligible for cancellation (%)<sup>15</sup></b>			
2008	11.2		
2005	12.0		

**Note:** UA=units of account

**Source:** African Development Bank

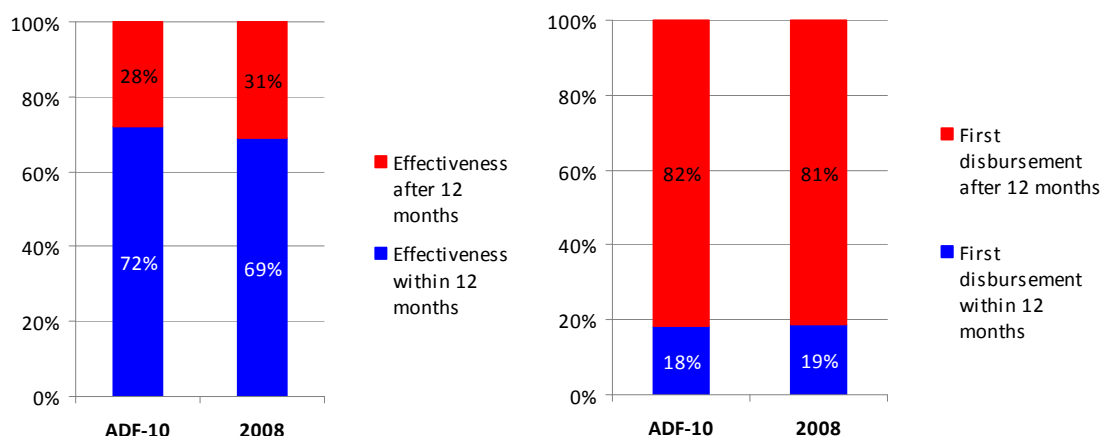
- 2.14 The average time lapse between the approval of an RO and its entry into force did not change substantially between the ADF-10 cycle and the first year of ADF-11, with approximately 70 percent of operations (weighted by value) entering into force within 12 months of approval (Figure 5). The average time lapse between the approval of an RO and first disbursement also remained roughly the same, with 18-19 percent of the value of ROs disbursed within 12 months. However, the average size of the operations in the portfolio increased substantially during this time, and larger operations are generally more complex and management-intensive. The stability of the time lapse between approval and disbursement thus suggests improved performance.

<sup>13</sup> Problem projects are projects that task managers have rated as problematic either because implementation is not progressing—a low implementation progress rating—or because the project is not progressing toward its intended development objective—a low development objective rating.

<sup>14</sup> Potential problem projects are projects that task managers have currently rated satisfactory in implementation progress and development objective ratings but that they have flagged as possibly experiencing problems in future.

<sup>15</sup> Operations are eligible for cancellation when they meet any of the following criteria: (i) they were approved but have not been signed for more than 180 days; (ii) they were signed but have remained undisbursed for more than 2 years; (iii) there has been no disbursement for 2 years or more; (iv) the undisbursed balance is below the minimum of UA 500,000; or (v) the disbursement deadline has expired.

**Figure 5: Time to Effectiveness and Time to First Disbursement of Ongoing ADF Regional Operations, by Value**



**Source:** African Development Bank

### **Challenges in Implementing ROs and Measures Taken by the Bank Group**

- 2.15 Many of the challenges encountered by the Fund in implementing ROs are common in ROs financed by development partners. ROs are complex and require the coordination and ownership of multiple participants and stakeholders and complicated agreements or frameworks among the parties concerned: this often translates into lengthier design and preparation. In the case of large infrastructure projects—which make up the majority of the ADF portfolio—substantial time is required to conduct feasibility assessments, undertake engineering work, produce technical designs, and conduct required environmental assessments, not all of which can occur prior to project approval. Differences in policies, legal and procurement frameworks, standards, approaches and practices between participating countries can also hinder the design, preparation and implementation of ROs. In addition, fulfillment of the conditions for disbursement can be demanding. During implementation, problems of coordination and a lack of appropriate mechanisms with which to resolve them may cause difficulties. Finally, political insecurities or issues specific to a single participating country can delay the entire operation.
- 2.16 The ADF is working to address these issues, inter alia through the project preparation, capacity-building, technical assistance and training activities mentioned in para. 2.5. Strengthened by its Action Plan on Quality and Results<sup>16</sup>, the Bank Group has undertaken wide-ranging reforms aimed to improve the quality of its interventions, including ROs, and to sharpen its focus on development results. Implementation of the reforms is well advanced. One of the goals is that portfolio supervision will become more of a continuous activity, aimed at supporting implementation and steering operations toward desired results. Empowered with more decision-making authority, the Bank Group's 25 Field Offices have an important role to play in strengthening project implementation and supervision so as to meet corporate performance targets. This is especially relevant for ROs.
- 2.17 In addition to the Action Plan, work to address the challenges specific to ROs includes measures to improve project design, strengthen their institutional arrangements, improve the filtering and review process through the Operations Committee and regional teams, and enhance reporting through the Annual Portfolio Performance Review presented to the Board

<sup>16</sup> The Action Plan on Quality and Results, which was discussed by the Board of Directors in September 2008 and was adopted as part of the Bank's Medium-Term Strategy 2008-2012, focuses on five areas of reform: (i) accelerating decentralization and harmonization for better results; (ii) enhancing the quality at entry of strategies and operations; (iii) instilling a result-based supervision culture; (iv) enhancing learning and accountability through evaluation; and (v) improving data and systems for results reporting. For information on the implementation of the Action Plan, see the ADF-11 Mid-Term Review Discussion Paper *Progress in Implementing the ADF-11 Results Measurement Framework*. October 2009. Helsinki, Finland.

of Directors. The Bank Group is conducting detailed studies at the country level to review the steps from project approval to realization and identify bottlenecks responsible for delays, in order to deepen its understanding and develop targeted measures to reduce delays to effectiveness and first disbursement. In addition, the Bank Group is undertaking an in-depth assessment of the ongoing RO portfolio in the first quarter of 2010 to explore implementation problems and constraints to achieving ROs' development objectives and to inform solutions. Recommendations from this learning review, including possible enhancements to the approach to ROs, will be implemented during the ADF-12 period. Further steps which will come to fruition under ADF-12 are outlined in paras. 4.6 and 4.7 and in Table 6.

### ***Experience and Lessons Learned from Implementing the RO Framework Under ADF-11***

- 2.18 The Fund has learned several lessons which it will translate into improvements during the ADF-12 period. These lessons pertain to the following areas: (i) strategic alignment, (ii) the quality, readiness and supervision of operations, and (iii) the financing mechanism for ROs and RPGs. First, the demand for ROs has greatly outstripped available resources, implying trade-offs and necessitating difficult choices. At the beginning of ADF-11, a substantial pipeline of ROs was already awaiting approval, as ADF-10 resources had been exhausted prior to the end of the ADF-10 cycle, and additional demand came forward before the cycle's end. Given the intense competition for resources, the project selection and prioritization process outlined in the RO framework was, in practice, not comprehensive enough to guide Management's decision making. The conclusion drawn is that **the RO instrument should be employed more strategically**, doing more to support and further the Bank Group's vision for regional integration and targeting specific Bank objectives that align with RMC goals.
- 2.19 Second, it has proven very difficult to select and sequence operations that are in varying stages of readiness and provide different amounts of information. The RO selection process would benefit from a more systematic comparative analysis of the **quality**, the **implementation-readiness** and the **potential results** of proposed operations. This would help to ensure high quality at entry and appropriate project design, and prevent weaknesses that could undermine results. An additional lesson learned is that in view of ROs' relative complexity, the Bank Group should further improve its tracking and supervision of RO implementation and performance by leveraging its Field Office network, and make ROs' development impacts clearer and more visible.
- 2.20 Third, having identified several challenges regarding the **cost-sharing principles** introduced under ADF-11,<sup>17</sup> the Fund has examined the financing mechanism for ROs. The cost-sharing mechanism for regular ROs (one third from countries' performance-based allocations and two thirds from the RO envelope), including the cap for countries with small allocations, has been applied as planned (Figure 2 and Table 3)<sup>18</sup>. While cost-sharing has leveraged country ownership and has allowed more ROs to be financed, it has also posed challenges, particularly for countries involved in multiple ROs and countries with small allocations. Countries have had to choose between national and regional projects. Closing financing plans for ROs has sometimes been difficult and is prone to delay as a result of complex discussions. In contrast, certain countries have also been willing to finance more than one-third of the costs. Experience with the system, which has now been in place for 2 years, is too limited to enable Management to draw firm conclusions. Management will continue to monitor this area.
- 2.21 Financing arrangements for **RPGs** have also presented challenges. The demand for RPGs has been extremely high, in part because RPGs can be exempted from cost-sharing and can be financed in the form of grants. In the absence of a cap or set-aside applicable to RPG projects, it is not clear how much money is available for this purpose. A three-step filtering framework with criteria to select and prioritize RPG projects was introduced in November

<sup>17</sup> See the ADF-11 Mid-Term Review Discussion Paper *Progress Report on Core Operational Priorities*. October 2009. Helsinki, Finland.

<sup>18</sup> The 10 percent cap on cost-sharing for countries with small Performance-Based Allocations ( $\leq$  UA 20 million) has raised questions. The transition for countries moving from an allocation just below the threshold to an allocation just above it can be very regressive. The cap can also cause uneasiness between countries participating in the same RO if some countries' contributions are capped and others' are not. However, these issues apply to any cap and are not specific to the levels chosen in ADF-11.

2008<sup>19</sup>. Nonetheless, prioritization between RPGs—which are mostly in the agriculture, environment, health, education and governance sectors—and non-RPG ROs mainly in the area of infrastructure remains difficult.

**Table 3: Countries Expected to Participate in Regional Operations Under ADF-11, Including Pipeline**

	Countries Participating in Regional Operations	Average Contribution to Regional Operations
Small allocation (UA 20 million or less)	Central African Republic, Congo, Djibouti	8.3% of their Performance-Based Allocation
Medium allocation (between UA 20 and 100 million)	Burundi, Chad, Guinea, Sierra Leone	25.1% of their Performance-Based Allocation
Large allocation (more than UA 100 million)	Cameroon, the Democratic Republic of Congo, Ethiopia, Kenya, Malawi, Mozambique, Nigeria, Rwanda, Tanzania, Uganda, Zambia	12.5% of their Performance-Based Allocation

*Source:* African Development Bank

- 2.22 Drawing on the lessons of implementation to date and the recently approved Regional Integration Strategy, Management proposes to consolidate the Bank Group's strategic selectivity in regional infrastructure, capacity building, and RPGs for the ADF-12 framework for ROs, and continue to complement other donors. Management also proposes refinements, as detailed in Section 4, to (i) improve the RO selection and prioritization process; (ii) further enhance the quality and better measure the results of ROs; (iii) systematically monitor, review and report on the performance of ROs; and (iv) strengthen the financing mechanism for ROs.

### 3. The Indicative List of Proposed Regional Operations for ADF-12

- 3.1 RMCs' demand for ADF resources has continued to grow strongly. On the basis of this demand and through a coordinated consultative process involving regional departments, sector departments and Field Offices, an indicative list of proposed operations has been developed for the ADF-12 period<sup>20</sup>. The indicative list for ROs during ADF-12 exceeds UA 5.4 billion and is a more than three-fold increase over the amount expected to be approved under ADF-11 (Table 4). Infrastructure projects, particularly in the fields of transport and energy, account for 84 percent of the total. Most ROs on the indicative list are investment projects (96 percent), with non-investment activities such as capacity building, institutional support, and technical assistance making up the remainder (4 percent or approximately UA 200 million). The average operation size is UA 62.4 million, which is larger than under previous replenishment cycles. Acting in coordination with other donors, the Fund will select and prioritize the proposed operations in light of the resources available.

<sup>19</sup> African Development Bank. 2008. *Criteria for Cost Sharing Exemption when Financing Eligible Regional Public Goods* (ADB/BD/WP/2008/183, 13 November). The first filtering stage screens all projects for basic eligibility, the second stage ranks and prioritizes eligible RPGs based on the expected development effect, and the third stage selects projects in light of available resources and projects' revenue-generating capacity.

<sup>20</sup> See the ADF-12 Discussion Paper *Overview Paper: ADF-12 Strategic Directions and Indicative Lending Scenarios*. February 2010. Cape Town, South Africa.



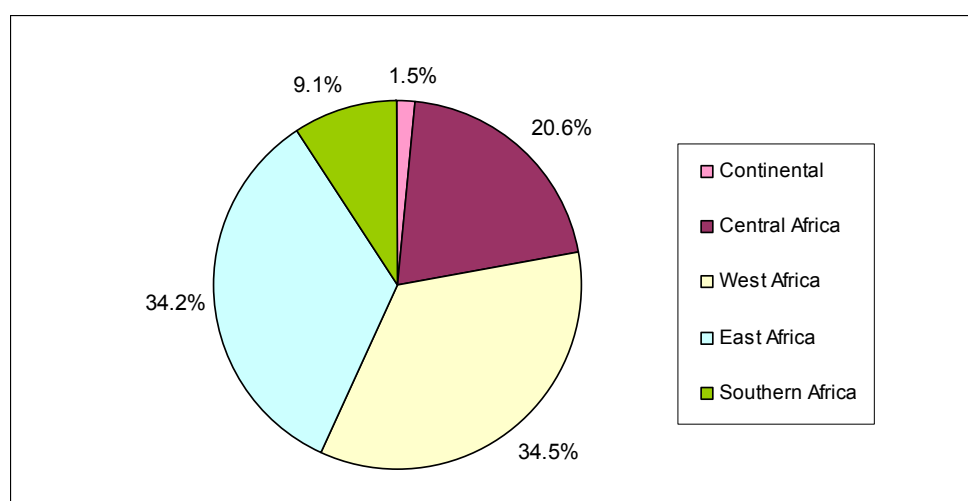
**Table 4: Indicative List of Proposed Regional Operations Under ADF-12 Compared to Expected Approvals Under ADF-11**

	ADF-11 UA millions	ADF-11 Percentage total	ADF-12 UA millions	ADF-12 Percentage total
Transport	847	64.1%	2,881	52.4%
Energy	193	14.6%	1,418	25.8%
Water and Sanitation	56	4.2%	175	3.2%
Information and Communication Technologies	0	0.0%	127	2.3%
Governance	39	2.9%	150	2.7%
Human Development	62	4.7%	185	3.4%
Agriculture and Rural Development	125	9.4%	557	10.1%
<b>Total</b>	<b>1,321</b>	<b>100%</b>	<b>5,493</b>	<b>100%</b>

*Source: African Development Bank*

- 3.2 Geographically, the indicative RO list suggests that the strongest demand comes from East and West Africa (34 percent each), followed by Central Africa and Southern Africa. Continental initiatives make up a relatively small share at 1.5 percent or UA 85 million.

**Figure 6: Geographic Distribution of Proposed Regional Operations Under ADF-12**



*Source: African Development Bank*

- 3.3 The indicative RO list includes UA 706 million of investments that will support Africa's low carbon growth and adaptation efforts in areas such as hydropower, rail and water transport, and forest conservation. For example, drawing on a study financed under ADF-11, ADF-12 expects to invest UA 50 million to support the navigation of the Oubangui river (an important transport artery for river boats between Bangui and Brazzaville), helping to improve safety and revitalize the inland water system's potential. In addition, investments in regional electricity networks help to improve energy efficiency.
- 3.4 The ADF-12 indicative list is slated to build on existing investment operations, studies and experience to complete missing links. Prepared with ADF-11 and NEPAD Infrastructure Project Preparation Facility financing, ADF-12 operations will complete all the road sections on the Nacala road and rail corridor (Mozambique-Malawi-Zambia) and construct a road and rail bridge across the Zambezi River at Kazungula (Botswana-Zambia), two key sections of the North-South Corridor in southern Africa. In West Africa, ADF-12 resources are scheduled to finance the regional power interconnection for Sierra Leone, Liberia, Guinea and Côte d'Ivoire, the final links in the West African Power Pool. The ADF, in close cooperation with other donors, has provided substantial support over previous ADF periods, resulting in an effective regional power pool. During ADF-12, the Bank Group will apply this experience to support the creation of the East African Power Pool, which is at a much earlier stage of

development. Similarly, non-investment projects during the ADF-12 period will build on the successes of earlier operations, such as the Bank Group's trade facilitation capacity-building support of RECs. The Bank plans to use UA 20 million to scale up this initiative across Africa.

### ***Leveraging ADF Resources for Regional Integration***

- 3.5 In light of the strong demand for ADF ROs, the Fund will continue its efforts to leverage resources by (i) mobilizing additional cofinancing, (ii) encouraging the private sector and other actors to invest in regional integration in Africa, and (iii) complementing investment with non-investment activities, including the use of bilateral and multi-donor trust funds.
- 3.6 The Bank Group's role of catalytic financier will be strengthened by **leveraging ADF funds through higher amounts of cofinancing**. The Fund will seek to raise substantial amounts of public, private and donor financing—including from newly emerging climate funds and facilities<sup>21</sup>—to supplement its delivery of ROs. In order to leverage more private sector funds, ADF countries will be encouraged to use their ADF allocations to participate in public-private partnerships where appropriate, particularly for regional infrastructure investments such as roads, rail, energy, and information and communication technologies. The Bank Group is enhancing synergies between its public and private sector instruments and is identifying opportunities for joint operations. New ADF instruments to leverage private sector financing are also being explored<sup>22</sup>.
- 3.7 The ADF will continue to **encourage the private sector and other actors to invest independently in regional integration in ADF countries in coordination with Fund efforts**. Other Bank Group entities and facilities housed at the Bank already support operations that benefit ADF countries, such as the East African Submarine Cable System project (Box 3). The Bank Group's economic and sector work is also increasingly focused on engaging private-sector actors in tackling development problems. With a share of nearly 20 percent of the portfolio, regional economic integration is an important objective of the Bank's private sector operations. These operations include (i) support for private sector investments in regional infrastructure that facilitates the cross-border movement of goods, services, people and knowledge; (ii) direct support to intra-regional trade; (iii) investments in African private sector equity funds—this builds management capacity, facilitates the spread of best practices and helps to harmonize countries' business approaches as regards the environment, sustainable development and other areas; (iv) lines of credit to African financial institutions in middle-income countries to finance worthy projects in ADF countries; (v) initiatives that promote an enabling environment for private sector development in ADF countries; and (vi) comprehensive assistance packages for subregional development finance institutions. Finally, the Bank Group is enhancing dialogue with ADB countries and examining possibilities for financing to encourage their interest and participation in regional integration activities.
- 3.8 The ADF's focus on financing regional investment projects and RPGs will be complemented by **combining and supplementing investment activities with non-investment activities** such as project preparation, research and analysis, capacity building, advisory services, policy dialogue, convening initiatives, dissemination of lessons learned and best practices, and the facilitation of knowledge exchange. Regional Integration Strategy Papers (RISPs), Country Strategy Papers and their supporting analyses will form the basis for identifying opportunities and ensuring synergies between financing and non-financing activities in coordination with other donors and stakeholders. A new series of flagship reports will rigorously analyze the regional integration issues confronting the continent, and the Bank Group will develop regional integration statistics by 2011 in close cooperation with national statistical and customs offices. Bilateral and multilateral trust funds can play an important role in supporting ADF operations from the project preparation stage through implementation.

<sup>21</sup> Areas where the ADF may seek funding from climate facilities include the integration of regional electricity grids, the development of climate-friendly transportation modes such as rail and water, and the exploitation of renewable energy sources. In addition, the ADF may seek contributions to finance the difference in costs between clean and conventional technologies.

<sup>22</sup> See the ADF-12 Discussion Paper *Overview Paper: ADF-12 Strategic Directions and Indicative Lending Scenarios*. February 2010. Cape Town, South Africa.

### Box 3: East African Submarine Cable System

The East African Submarine Cable System (EASSy) is an initiative to construct and operate a submarine fiber-optic cable along Africa's east coast. This cable will run approximately 9,000 km from Port Sudan, Sudan to Mtunzini, South Africa and will connect 20 coastal and landlocked countries—of which 15 are ADF countries—to each other and to the rest of the world. The project is expected to benefit regional economies immensely by improving the quality and lowering the cost of information and communication technology services and promoting interconnectivity. The sponsors of the EASSy project are the 29 leading telecommunications operators of Eastern and Southern Africa.

The African Development Bank's private sector window is lending the special purpose vehicle established for the project the sum of US\$ 14.5 million, around 12.5 percent of the total project cost. Other financiers include the European Investment Bank, the Agence Française de Développement/Société de Promotion et de Participation pour la Coopération Economique, the Development Bank of Southern Africa, the Kreditanstalt für Wiederaufbau-Entwicklungsbank (KfW), and the International Finance Corporation.

In the project preparation phase, the Bank provided US\$ 1.5 million of technical assistance. The New Partnership for Africa's Development Infrastructure Project Preparation Facility and the Fund for African Private Sector Assistance financed a feasibility study, the transaction advisor who assisted the special purpose vehicle, and joint legal counsel. The Bank co-funded the environmental study with KfW.

## 4. Proposals for an Enhanced Regional Operations Framework in ADF-12

- 4.1 As described in paragraphs 2.15 to 2.22, a number of challenges and lessons regarding ROs were identified during ADF-11. Based on these lessons and the guidance provided by Deputies at the ADF-11 Mid-Term Review, and building on ongoing Bank Group institutional reforms and business process improvements, Management asks Deputies to consider selected enhancements to the RO framework under ADF-12. These enhancements concern (i) the selection and prioritization of ROs; (ii) ROs' quality and results measurement; (iii) the monitoring and reporting of ROs; and (iv) RO financing mechanisms.

### *Better Selecting and Prioritizing Regional Operations*

- 4.2 Management proposes to strengthen the current process and parameters for selecting and prioritizing RO projects, including RPGs, in order to ensure ROs' full strategic alignment with Bank Group and ADF countries' objectives, high quality and potential for results, and sufficient development impact in the face of strong competition for resources. The selection process also offers ROs the opportunity to integrate and respond to climate change concerns affecting Africa.
- 4.3 Under the RO Framework, regional strategies which ensure the ownership of national and regional stakeholders should play an increasing role in developing regional solutions to common challenges and serve as a first step toward identifying suitable ROs<sup>23</sup>. The Bank Group is presently developing Regional Integration Strategy Papers in broad consultation with beneficiary countries, RECs, local stakeholders and other donors (Annex I)<sup>24</sup>. Each RISP will include a strategic vision and objectives to guide regional integration activities and serve as the main basis for the Bank Group's interventions in a subregion. Each RISP will contribute to programming decisions by (i) providing an indicative, prioritized list of operations that support this vision and enjoy subregional stakeholder support and (ii) recommending operations for Bank Group financing.

<sup>23</sup> African Development Bank. 2008. *Strategic and Operational Framework for Regional Operations* (ADB/BD/WP/2008/31, 19 February), page 13.

<sup>24</sup> A draft RISP for Central Africa was discussed by the Board of Directors on 2 December 2009 and is being substantially revised at the present time. Additional RISPs for North, West, East and Southern Africa will be developed in the course of 2010 and will span a 5-year period. The RISP development process will be informed by lessons learned from the in-depth assessment of the RO portfolio currently being undertaken by the Bank, and by ongoing continental initiatives such as the African Union/NEPAD Africa Action Plan (which contains a list of priority programs and projects) and the first phase of the PIDA study (Box 1).

- 4.4 Management proposes a two-step selection and prioritization process, outlined in Table 5. Step One will consist of developing RISPs, including a recommended pipeline of operations. This pipeline will consider (i) operations' alignment with the Bank's corporate priorities and the Regional Integration Strategy; (ii) operations' alignment with the priorities of the African Union, NEPAD, RECs and others; (iii) operations' impact on regional integration; and (iv) the ownership of participating countries and entities. In Step Two, Management proposes to rank, prioritize and sequence operations within the pipeline to match the available ADF resources over the next 3 years, using the following criteria (for more information, see Annex III):
- the quality at entry of the operation and its readiness for implementation during the ADF cycle, as informed by Readiness Reviews;
  - collaboration with and cofinancing by other development partners, including the private sector;
  - the expected development outcomes and impacts of the operation, estimated using a new scorecard; and
  - the expected impacts on climate change, i.e. the operation's contribution to combating and/or preventing the negative effects of climate change.
- 4.5 Using the Step Two criteria, Bank Management will establish a forward-looking RO pipeline once a year. The pipeline will be firm for the first year and indicative for the remainder of the ADF cycle. One-third of the RO envelope will be available for use in each year and progress will be monitored at a mid-year review. This enhanced decision-making procedure will clarify the approval process, project lead times and the time at which to propose projects to sponsors, beneficiary countries and RECs. It will also introduce an element of competition between operations and incentivize quality and readiness. The pipeline for 2011-2013 will be reviewed and prioritized in the fourth quarter of 2010 using the above criteria.

**Table 5: Proposed Enhancements to the Current Regional Operations Selection and Prioritization Process**

<b>Current Process Outlined in the Regional Operations Framework</b>	
Eligibility criteria concerning project sponsors, regional character, commitment	
Project selection and prioritization on the basis of development impact and strategic alignment criteria	
<i>Development impact.</i> The project's contribution to economic growth, regional integration and the provision of regional public goods	
<i>Strategic alignment.</i> The project's alignment with continental and regional objectives and the African Development Bank (Bank) Group's strategic orientations with respect to (i) the Bank's selectivity and sector focus and (ii) harmonization and partnership.	
<b>Proposed Enhanced Process</b>	
Eligibility criteria: no change	
Project election and prioritization: a two-step process	
<i>Step One:</i> After broad consultations, 5-year Regional Integration Strategy Papers containing an indicative pipeline of operations recommended for Bank Group support are drawn up	
<i>Step Two:</i> Bank Management ranks, prioritizes and sequences the recommended pipeline to fit the resources available over the African Development Fund (ADF) cycle, on the basis of the following criteria:	The higher the score on each of the criteria, the higher the operation will rank.
<ul style="list-style-type: none"> <li>• projects' quality at entry and readiness for implementation during the ADF cycle</li> </ul>	To be informed by Readiness Reviews, assessments currently carried out by the Bank's Quality Assurance Division, which examine quality-at-entry dimensions including the alignment and strategic fit of the operation with country and African Development Bank Group priorities; the status of prior operations and lessons learned; the rationale of the operation's design and its ownership; the operation's results focus

	and risk assessment; environmental and social safeguards; financial management and procurement; and implementation arrangements and sustainability.
<ul style="list-style-type: none"> <li>• collaboration and cofinancing with other development partners, including the private sector</li> </ul>	Collaboration to be indicated through the use of common arrangements such as joint appraisal, preparation, planning, proposal, financing, implementation, monitoring, evaluation and reporting. Cofinancing to be measured in nominal amounts and as a percentage of the total cost of the operation.
<ul style="list-style-type: none"> <li>• expected development outcomes and impacts</li> </ul>	To be indicated by a scorecard for regional operations (ROs) that will be constructed on the basis of lessons learned from the ex ante assessments of expected development outcomes currently applied to the Bank's private sector operations. Assessors will examine several categories of expected development outcomes of each RO in the Step One pipeline and with a simple "yes/no" will recommend whether to proceed with further development of the operation.
<ul style="list-style-type: none"> <li>• expected impacts on climate change</li> </ul>	Operations that maximize opportunities for low carbon growth score higher. For example, rail and water transport investments score higher than roads. When a road is the only viable option, measures to minimize negative environmental impacts increase the score. In the energy sector, operations prioritizing energy efficiency, demand-side management, renewable energy and regional grid financing in support of renewable resources score higher.
Development impact to be taken into account during Steps One and Two	
Strategic alignment to be taken into account during Step One	

**Source:** African Development Bank

#### ***Further Enhancing the Quality and Results Measurement of Regional Operations***

- 4.6 In recent years, the Bank Group has systematically strengthened systems and measures aimed at improving the quality of its interventions and sharpening its institutional focus on development (Table 6). These efforts will continue to yield results throughout the ADF-12 period. In addition, the results of the ongoing in-depth assessment of the RO portfolio will be available by the end of the first quarter of 2010, allowing Bank Management to draw lessons and identify possible additional improvements. Separately, the Bank's independent Evaluation Department will undertake a review of ROs in 2010 to assess their effectiveness, relevance, efficacy, efficiency and sustainability and to advise Management on possible improvements.
- 4.7 The Bank's RMF tracks institutional effectiveness and performance in delivering inputs and supporting activities on the ground, as described in para. 2.13 and Figure 4. However, the Bank's existing information systems are not yet fully aligned to tracking portfolio performance indicators for ROs and have sometimes yielded incomplete or inaccurate information in the past. To remedy this situation, the Bank will develop an integrated results reporting system to generate statistics that provide an aggregate picture of the progress of ROs on the ground. Beginning in 2010, a special section on ROs will be included in the Annual Portfolio Performance Review that is discussed with the Board of Directors. This will be a useful tool with which to diagnose performance.

**Table 6: Key Measures to Improve the Quality and Results of Bank Group Operations During ADF-11**

Action	Time	Status
Define and disseminate the appropriate <b>logical framework</b>	Initiated in 2009	The African Development Bank (Bank) is revising logical frameworks for all operations. This exercise will be completed over the course of ADF-12. Regular training of task managers takes place to improve the quality of logframes in operations.
Develop <b>readiness assessments</b> of quality at entry	Initiated in 2009	<b>Readiness Reviews</b> (RRs) assess and rate projects, including regional operations, on a variety of quality-at-entry criteria at the project concept note stage and at the appraisal stage. The pilot phase of RRs took place in 2009 and lessons learned were used to improve the RR checklist. RRs are mandatory for all public sector investment operations since 1 January 2010. In 2010, RRs will be complemented by a set of quality-at-entry standards that will give task managers detailed guidance on what constitutes a good quality operation (see also Annex III).
Develop <b>standard outcome and output indicators</b> for similar operations in key sectors	Initiated in 2009	Core Sector Indicators that reflect the sector's technical judgment on how best to monitor the achievement of development objectives within operations were initiated in 2009. The Bank is refining and will mainstream these indicators into project design and supervision. Special attention will be paid to enhancing their applicability to regional operations.
<b>Minimize delays</b> from approval to disbursement by having conditions fulfilled prior to Board approval	Initiated in 2008	The timeliness of operations has been improved thanks to an increased focus on meeting the conditions necessary for operations to become effective (i.e. policy triggers) before Board approval and on solving bottlenecks to meeting such conditions. Additional reforms are being implemented by the Bank to reduce the delays to disbursements, especially for regional operations. Reforms that permit the rapid disbursement of projects following Board approval will be piloted in early 2010.
Ensure that <b>supervision reporting</b> is timely, comprehensive and results-oriented	Initiated in 2007	Early in 2010, the Bank will launch a new policy and a new format for supervising its operations that will (i) increase the focus on development results; (ii) move towards evidence-based ratings; (iii) make risk management more effective; and (iv) develop an integrated data management system that provides real-time performance information.
Ensure that <b>timely completion reporting</b> is enforced for all operations	Initiated in 2008	The Bank revamped the rules guiding its Project Completion Reports and developed a new format that focuses on assessing results, identifying lessons learned, and complying with Bank policies and Paris Declaration principles. As a result, 96 percent of operations completed in ADF-11 delivered Project Completion Reports on time in 2008, allowing important lessons to be drawn.
Develop an integrated <b>results reporting system</b> that provides live information on results	Initiated in 2009	The Bank presented a prototype of its new results reporting system at the ADF-11 Mid-Term Review. Expected to be completed by end-2010, the system will use a simplified project logframe as a starting point for tracking results from design to supervision and completion. Live information on results will be computed by aggregating core sector indicators whenever possible.

**Source:** African Development Bank

### ***Systematically Monitoring the Performance of Regional Operations***

- 4.8 Currently, ROs are not included in the annual Country Portfolio Performance Rating (CPPR) exercise, which feeds into the ADF Performance-Based Allocation process. It has been suggested that ROs should be included in this process so that their performance becomes one of the elements that influence country allocations, alongside that of national projects.
- 4.9 While Management agrees with the intentions and end-objective of the proposal, having carefully examined possibilities to include ROs in CPPRs, Management feels that at this point in time, the drawbacks outweigh the advantages. First, the overall performance of ADF ROs is generally poorer than that of national operations, as is also the case at other institutions such as the World Bank. Including these operations in CPPRs could therefore suddenly reduce the ADF allocations of participating countries. This would increase the volatility of ADF allocations at a time when Management is seeking to reduce this volatility<sup>25</sup> and could decrease incentives for RMCs to participate in ROs. Countries that participate in multiple ROs could be disproportionately affected. Second, it is possible that including ROs in CPPRs would discourage countries from engaging in ROs with neighbors with low performance capacity, such as fragile states. In addition, there are factors that influence ROs' performance which are not within a country's sphere of influence: for example, political instability or an emergency in a neighboring country. These factors would hamper the achievement of the desired effect of including ROs in CPPRs.
- 4.10 At this time, rather than including ROs in the Performance-Based Allocation process, Management proposes to systematically monitor, review, track and report on the portfolio of ROs in ADF countries, inter alia through the special section of the Annual Portfolio Performance Review mentioned in para. 4.7. This procedure would complement actions already underway at the project level, such as the enhanced supervision discussed in para. 2.16. The resulting information would be used to conduct in-depth dialogue with countries on improving the implementation of ROs, and for designing technical assistance programs where appropriate.

### ***Financing Mechanism: Cost-Sharing Arrangements and Regional Public Goods***

- 4.11 As outlined in para. 2.20, the Fund's experience with cost sharing is too recent to draw definite conclusions. Given the relatively small size of ADF allocations, countries must sometimes choose between participating in an RO and participating in a national project. These tensions could be alleviated by a larger ADF replenishment and a larger RO envelope. As the cost-sharing system has only been in place since 2008, Management believes it is too early to propose changes at this time. The indicative list of proposed operations for 2011-2013 has therefore been developed based on the existing cost-sharing rule. Nevertheless, Management will continue to monitor the implementation of current cost-sharing arrangements and, if necessary, will propose options for adjustment for Deputies' consideration in the future.
- 4.12 In order to better channel the very high demand for RPG operations and ensure alignment with the Bank Group's strategic priorities, Management intends to follow the same thorough selection and prioritization process as described above for non-RPG ROs. First, RISPs and broad consultations with RECs, beneficiary countries and others will recommend a strategic project pipeline that indicates the strength of ownership and sponsor commitment for each RPG operation. Subsequently, operations will be prioritized on the basis of certain criteria, including quality and readiness. The existing three-step filtering framework for RPGs<sup>26</sup> will be reviewed and adjusted as necessary. Particular attention will be paid to the support that the ADF can deliver, through RPG operations, to vulnerable African countries and populations to address (the costs of) adaptation to climate change.

<sup>25</sup> See the ADF-12 Discussion Paper *Issues concerning ADF Resource Allocation Framework*. February 2010. Cape Town, South Africa.

<sup>26</sup> African Development Bank. 2008. *Criteria for Cost Sharing Exemption when Financing Eligible Regional Public Goods* (ADB/BD/WP/2008/183, 13 November). See also footnote 19.

- 4.13 The definitional problems around RPGs remain. To further define the boundaries within which the Fund will pursue RPG operations, Management considered limiting the RPGs eligible for ADF financing to “soft” components of regional integration (e.g., coordination, regulation, legal frameworks, harmonization of policies and procedures, institutional capacity building and technical assistance) so as to exclude “hard” components (such as infrastructure) that can be financed as regular ROs. However, based on experience to date, such a limit would likely complicate rather than simplify the decision-making process by leaving more room for debate and interpretation<sup>27</sup>. Instead, Management proposes to introduce a formal cap on the percentage of the RO envelope that can be used for RPGs. This would be a ceiling rather than a target, as proposals will be judged on their merits. It would remove the open-ended nature of the current arrangement, clarify to stakeholders the amount of resources available for RPGs, underline that choices have to be made, and introduce an element of competition between RPG operations. This would incentivize quality, ensure strategic alignment with the Bank Group’s priorities, and promote readiness for implementation at the moment that prioritization takes place. Note that with limited resources available RPGs, once the amount available were exhausted, worthwhile operations would have to wait for the next replenishment or financing from other development partners.
- 4.14 Management proposes to keep support for RPGs limited, selective and decided on a case by case basis and, to this end, to cap the resources available for RPG operations at 15 percent of the RO envelope in ADF-12. This ceiling would facilitate the decision-making process by orienting it around strategic alignment, quality and development impact.

## 5. Recommendations

- 5.1 In summary, Management proposes to reaffirm the Bank Group’s strategic selectivity in regional infrastructure, capacity building, and RPGs. In light of the strong demand for ADF-12 ROs, the Fund will pursue its efforts to leverage resources by (i) mobilizing cofinancing, (ii) encouraging the private sector and other actors to invest in regional integration in Africa, and (iii) complementing investment with non-investment activities, including the use of bilateral and multi-donor trust funds. Management also proposes to refine the RO Framework for ADF-12.
- 5.2 Management requests Deputies’ views and endorsement of the following proposals:
- an increased envelope for ROs under ADF-12;
  - strengthening the selection and prioritization of RO proposals, including RPGs, in a two-step process: (i) developing RISPs and (ii) filtering an initial selection of ROs as per certain criteria;
  - further enhancements to the quality and results measurement of ROs, in particular with measures to continue to improve ROs’ implementation and performance;
  - the systematic monitoring, reviewing and reporting on the performance of ROs, inter alia through a special section of the Annual Portfolio Performance Review, rather than the inclusion of ROs in the Performance-Based Allocation process at this time; and
  - maintenance of the principle of 33 percent cost-sharing and a cost-sharing cap of 10 percent for countries with a Performance-Based Allocation of UA 20 million or less, but introduction of a cap on the resources that can be spent on RPG operations during ADF-12 at 15 percent of the RO envelope.

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<sup>27</sup> During the ADF-11 consultations, it was decided to delineate RPGs through a definition and examples in the RO Framework. In practice, it has proven very challenging to agree on the interpretation of the definition, to prioritize RPGs and to keep support for RPGs limited and selective (as prescribed in the ADF-11 report).



## **Annex I: The Bank's Regional Operations Framework, Regional Integration Strategy, and Regional Integration Strategy Papers**

### ***The Bank Group Strategic and Operational Framework for Regional Operations***

The RO Framework was approved in March 2008 and states that the Bank Group's regional operations (ROs) will focus on two strategic areas:

- Infrastructure (particularly transportation, but also energy, water and telecommunications); and
- Regional public goods (RPGs), whereby the Bank Group galvanizes regional cooperation to address challenges that cannot be met by private finance or by countries acting alone.

The RO Framework also emphasizes greater partnerships with bilateral and multilateral donors, with private sector players, and regional organizations with the institutional capacity to develop and implement ROs.

The RO Framework rests on the following pillars:

- Clear *eligibility criteria* concerning project sponsors, the regional character of the operation, and sponsors' commitments;
- Certain *prioritization criteria*: namely, an operation's development impact and its alignment with the Bank's and the client's strategic objectives;
- A *financing formula* according to which ADF country allocations cover part of the cost of the RO. This links ROs to country performance and encourages countries to participate in ROs by leveraging country funds with the ADF regional envelope. The formula is flexible enough to accommodate special cases such as small allocations and the financing of RPGs.
- A *definition of RPGs* that specifies that projects must have both a public and a regional dimension, and that the Bank's role should target the project's initial stage and correct disincentives.

The RO Framework further decrees that ROs will be based on regional strategies with adequate national and regional ownership, that they will be rigorously prioritized and well prepared, and that both the ROs and their results will be actively monitored and evaluated.

### ***The Bank Group Regional Integration Strategy 2009-2012***

In February 2009, the Board approved the Regional Integration Strategy. This strategy awards the Bank Group a triple role: that of catalytic financier, knowledge broker and partner. It builds on the Bank Group's competitive advantages and on its achievements and experiences, and reflects regional, country and project-level constraints that affect ROs.

The Regional Integration Strategy is underpinned by two mutually reinforcing pillars: regional infrastructure and institutional capacity building, including the facilitation of trade. These pillars mirror priority areas in which the Bank has particular competencies and where it is well-placed to intervene. Their promotion requires attention to certain cross-cutting activities—Aid for Trade, regional financial infrastructure and RPGs, among others—which are best implemented through strategic partnerships.

### ***Regional Integration Strategy Papers***

Regional Integration Strategy Papers (RISPs) have been introduced as a tool to inform the Bank's support of Africa's regional integration agenda. The Regional Integration Strategy defines four subregions for RISPs: North Africa, West Africa, Central Africa, and Eastern and Southern Africa. RISPs for all regions will be undertaken in 2010.

Preparation of the RISPs will be led by the Bank's regional departments together with the NEPAD, Regional Integration and Trade Department. Their principal objective is to provide sound regional analyses that inform the Bank's strategic outlook and interventions. An annotated RISP outline has been developed and an approach paper will be discussed with the Board in the first quarter of 2010. Lessons will be drawn from an in-depth assessment of the ongoing RO portfolio.

The preparation process entails extensive field consultations not only with regional economic communities but also other African organizations (the African Union, the New Partnership for Africa's Development (NEPAD), and others), regional member countries, other donors and stakeholders, and the private sector. These consultations will take into account and build upon existing continental and

sub-regional strategies and action plans (such as the NEPAD Short-Term Action Plan and Africa Action Plan) and ongoing work such as the Program for Infrastructure Development in Africa study, and will identify opportunities for cooperation. The goal of the consultations is to develop an indicative program of support that is shared and owned by beneficiaries and that focuses on areas where the Bank can add value. The program will naturally reflect what the Bank is able to deliver in terms of human resources, economic and sector work, policy advice and financing.

The draft RISPs will be discussed internally and validated externally before entering the Bank's formal review process and being submitted for Board discussion and approval.

## Annex II: Additional Information on Regional Operations

**Figure II-1: The African Development Bank Group's Contribution to Road Corridors During ADF-11**

**AFRIQUE : PRINCIPAUX CORRIDORS ROUTIERS**

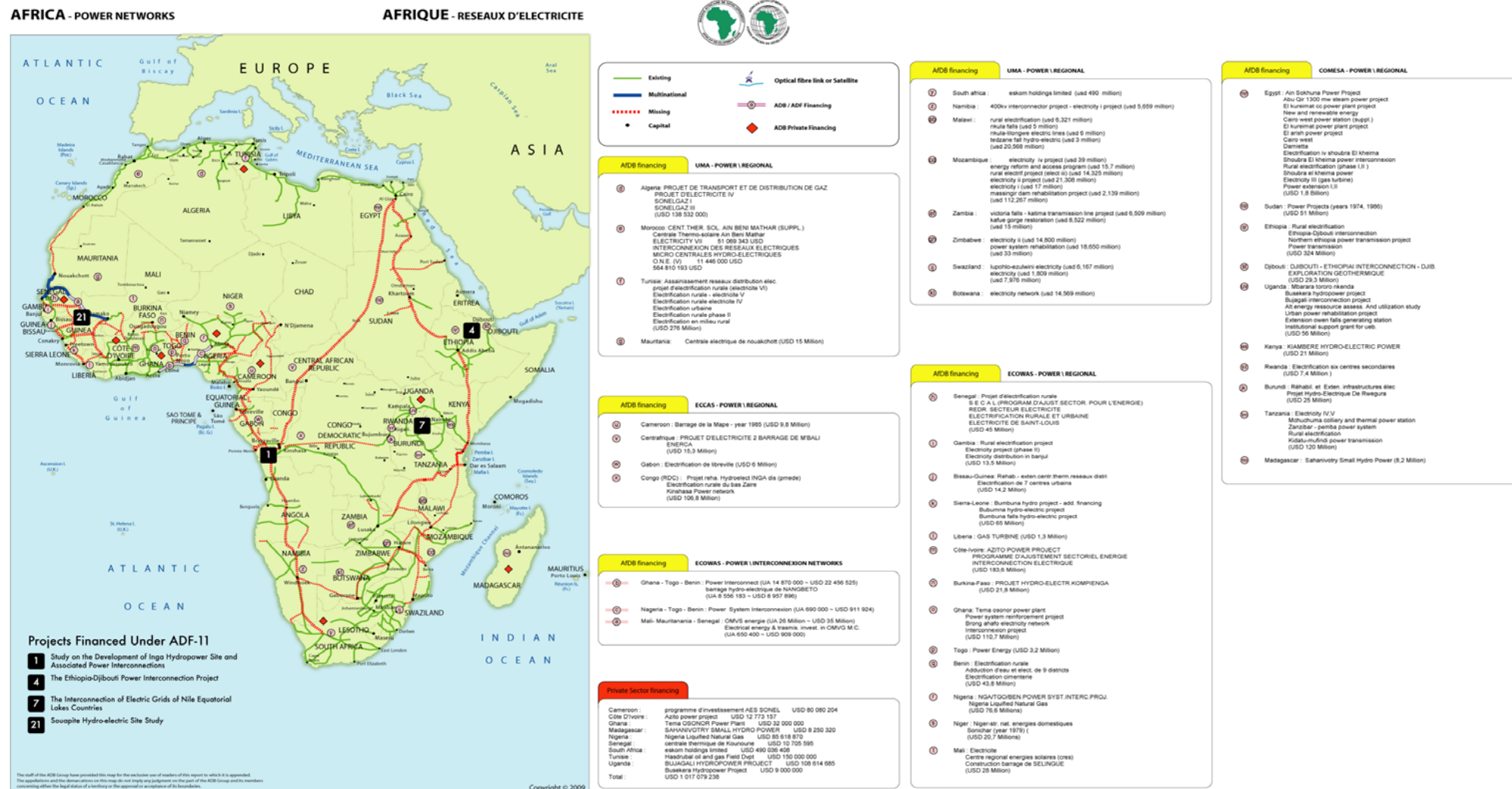
**AFRICA : MAIN ROAD CORRIDORS**



**Note:** For project descriptions, see corresponding project numbers in Table II-4.

**Source:** Infrastructure Consortium for Africa / African Development Bank

**Figure II-2: The African Development Bank Group's Contribution to Power Networks During ADF-11**



**Note:** For project descriptions, see corresponding project numbers in Table II-4.

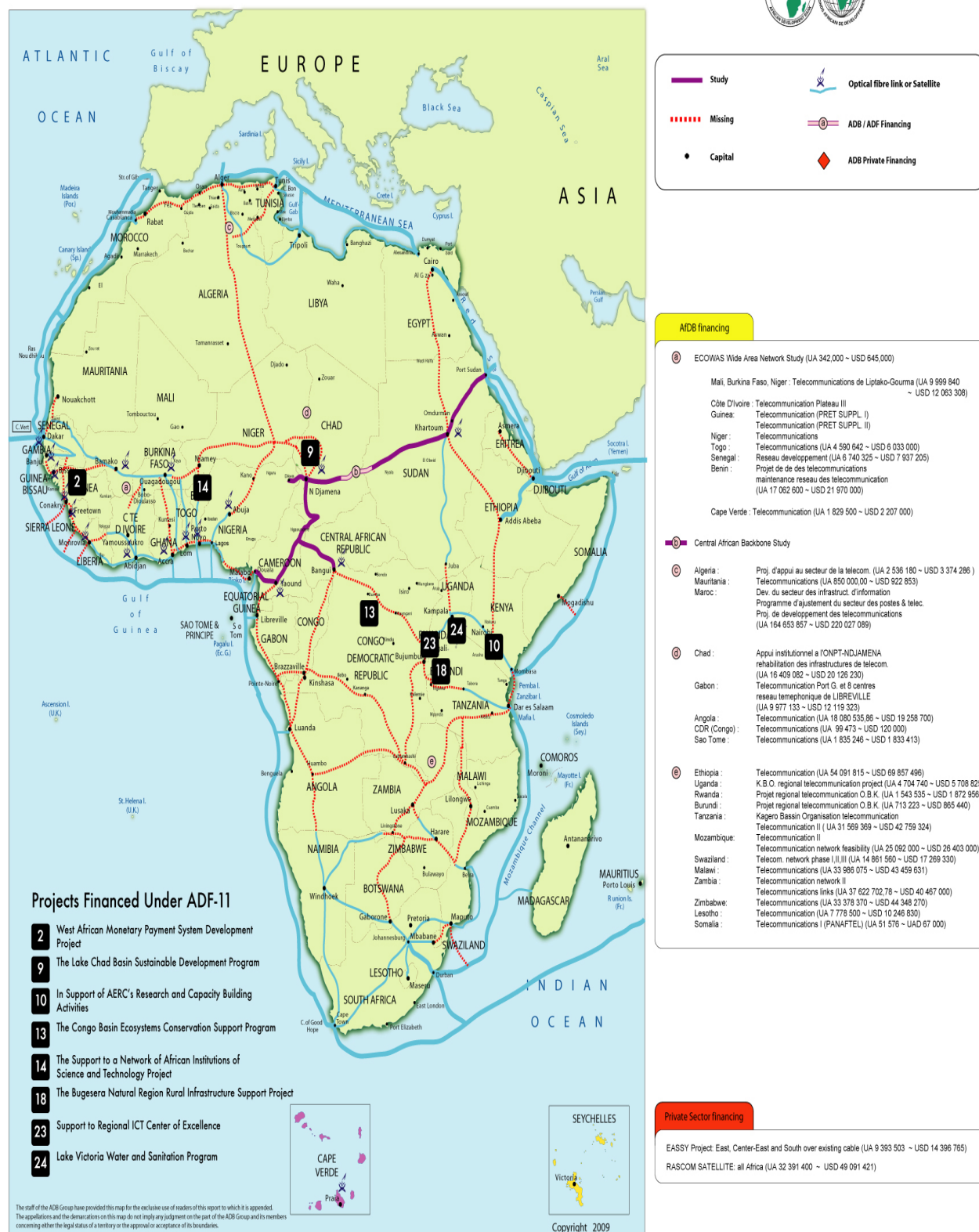
**Source:** Infrastructure Consortium for Africa / African Development Bank



**Figure II-3: The African Development Bank Group's Contribution to Information and Communications Technology Networks, Agriculture and Rural Development, and Regional Public Goods During ADF-11**

**AFRIQUE - NTIC - RESEAUX HAUT DEBIT**

**AFRICA - ICT - BROADBAND NETWORKS**



**Note:** For project descriptions, see corresponding project numbers in Table II-4.

**Source:** Infrastructure Consortium for Africa / African Development Bank

**Table II-4: Regional Operations During ADF-11***(UA millions)*

Project Title	Date of Approval, Sector	Project Goals	Participating Countries / Entities	Cost-Sharing or RPG	ADF's Total Contribution	Co-financing
1. Study on the Development of Inga Hydropower Site and Associated Power Inter-connections	30/04/2008 Infrastructure (energy)	To determine the feasibility of optimally developing the hydropower potential at the Inga Site (with a view to increasing installed capacity from 1775 MW in 2007 to 6000 MW in 2015), and the building of 1,400 to 6,000 km of very high tension transmission lines by 2015 to meet the electricity needs of the Democratic Republic of Congo and to supplement other African regions, in order to promote the continent's electric energy security and independence.	Democratic Republic of Congo	Cost-sharing	9.51	Government of the Democratic Republic of Congo (0.64), African energy pools (0.41)
2. West African Monetary Payment System Development Project	09/07/2008 Governance/ policy-based lending (governance, capacity building)	To harmonize and improve payment systems in the Gambia, Guinea and Sierra Leone. The main project component is the development of the Real Time Gross Settlement payment system in the three countries, a large value funds transfer system whereby financial intermediaries settle interbank transfers. The three countries' clearing systems, check processing systems, central banking application systems, and securities settlement systems will also be developed, and equipment will be procured to upgrade the three central banks' infrastructure. This is necessary for the successful launch of the West African Monetary Zone, which also includes Ghana and Nigeria.	West African Monetary Institute	RPG	14.00	Central banks of beneficiary countries (1.62), commercial banks (1.94)
3. The African Program for Onchocerciasis Control (Phase II and Phasing Out)	15/07/2008 Human development (health)	To improve popular well-being in onchocerciasis (river blindness) endemic areas by reducing the number of disability-adjusted life years and increasing productivity (15 million DALYs to be prevented by 2015). To protect 98.7 million people at risk against onchocerciasis within the coverage area through a 68% reduction in the rate of river blindness over the 1995-2015 period and a reduction in the prevalence of severe itching as a result of onchocerciasis from 49% in 2008 to 1% in 2015. To ensure self-management by 117,000 communities of the Ivermectin treatment.	The African Program for Onchocerciasis Control, 20 RMCs	RPG	15.00	Other donors (World Bank, private sector (Merck & Co.), United States Agency for International Development, Kuwait, Netherlands and Saudi Arabia) (40.9), governments (7.82), nongovernmental organizations (11.49)

4. Supplementary Financing for the Ethiopia-Djibouti Power Interconnection Project	08/10/2008 Infrastructure (energy)	Additional funding to support the establishment of power trade between Djibouti and Ethiopia (export from Ethiopia to increase from 0 in 2008 to 100MW); to increase access to affordable electricity (electrification of four border towns, construction of 607 km of transmission line, average tariff in Djibouti to fall by 60% by 2010); and to strengthen the capacity of the Ethiopian Electric Power Corporation and Electricité de Djibouti to ensure the smooth and efficient operation of the power interconnection.	Djibouti and Ethiopia	Cost-sharing	20.92	Ethiopian Electric Power Corporation (10.11)
5. The Transport Facilitation Program for the Bamenda-Mamfe-Abakaliki-Enugu Corridor	25/11/2008 Infrastructure (transport)	To increase trade by 15% and strengthen cooperation between the members of the Economic Community of Central African States and the Economic Community of West African States in general and between Cameroon and Nigeria in particular; to make the logistic chain along the Bamenda-Enugu transport corridor more efficient; and to improve the livelihood of the population of the area by (i) paving or reconstructing 200 km of road and performing maintenance on 192 km of road; (ii) rehabilitating and/or constructing social and market infrastructures, such as feeder roads, market sheds, drying areas for agricultural products, and schools; (iii) removing constraints to the free flow of traffic by building a common border checkpoint, limiting the number of checkpoints and controlling axle load; and (iv) building the capacities of organs responsible for monitoring the implementation of the project.	Cameroon, Nigeria and ECOWAS	Cost-sharing (Cameroon, Nigeria); RPG (ECOWAS)	204.80	Japan Bank for International Cooperation (27.36), International Development Association (18.73), Government of Cameroon (10.84), Government of Nigeria (14.20), ECOWAS (0.80)
6. Support Statistical Capacity Building in RMCs for Millennium Development Goals Monitoring and Results Measurement	27/11/2008 Governance/policy-based lending (governance, capacity building)	To assist RMCs to meet the data requirements for effective policy and decision making and to facilitate efficient results measurement, monitoring, evaluation and dissemination, particularly with respect to the Millennium Development Goals by: (i) improving statistical systems; (ii) decreasing survey standard errors from 30-40% to 10%; (iii) conducting 112 training courses / workshops / seminars; and (iv) preparing 15 training materials in official statistics topics.	51 RMCs	RPG	17.85	ADB (5.75), RMCs (16.00), UK Department of International Development (5.00), the African Capacity Building Foundation (4.00), the Islamic Development Bank (2.00), Japan (to be approached after Board approval)
7. The Interconnection of Electric Grids of Nile Equatorial Lakes Countries	27/11/2008 (UA 99.77 million approved; UA 15.60 million in the	To improve socioeconomic conditions in the region by making affordable electric energy available to communities through increased cross-border trade of electric power. The project will construct and upgrade 769 km of 220 kV and 110 kV power lines and 17 transformer stations to connect the electric grids of Burundi, Democratic Republic of Congo, Kenya, Rwanda, and	Burundi, Democratic Republic of Congo, Kenya, Rwanda,	Cost-sharing (Burundi, Democratic Republic	115.37	The Japan Bank for International Cooperation (37.48), World Bank (15.60), Governments of Burundi (0.02),

	pipeline for 2010) Infrastructure (energy)	Uganda. The electricity access rate is expected to increase from 9% in 2010 to 13% in 2015 and 19% in 2020 on average, and average cost per kWh will decline from USD 20 cents in 2008 to 8 cents in 2020.	Uganda, and the Nile Basin Initiative.	of Congo, Kenya, Rwanda, Uganda);  RPG (Nile Basin Initiative)		Democratic Republic of Congo (0.05), Kenya (1.90), Rwanda (1.93) and Uganda (3.07), the Nile Basin Initiative (0.38)
8. The Study on the Road-Rail Bridge between Kinshasa and Brazzaville and the Kinshasa-Ilebo Railroad	03/12/2008 Infrastructure (transport)	To (i) study the feasibility, prepare the final design and prepare bidding documents for a road-rail bridge linking Kinshasa and Brazzaville and (ii) study the feasibility of and a 1,015 km railway to link Kinshasa and Ilebo. These infrastructures aim to increase trade, reduce transport costs, and reduce travel time among countries located along the corridor.	Democratic Republic of Congo and Republic of Congo	Cost-sharing	5.00	Government of the Democratic Republic of Congo (0.37) and Government of the Republic of Congo (0.07)
9. The Lake Chad Basin Sustainable Development Program	11/12/2008 Agriculture and rural development (environment )	To reverse degradation and sustainably conserve Lake Chad in order to ensure the economic security of the fresh water ecosystem resources; to promote the integrated and judicious management of the basin through a Water Charter so as to achieve the sustainable development and equitable use of its natural resources by each country while preserving ecosystems and biodiversity; to strengthen the management of Lake Chad's transborder water resources; to contribute to poverty reduction in the area.	The Lake Chad Basin Commission, Cameroon, Niger, Nigeria, Central African Republic and Chad	RPG	30.00	World Bank (6.94), Gesellschaft für die Technische Zusammenarbeit (1.23), German Institute of Geosciences and Natural Resources (2.10), the European Union (3.51), the Islamic Development Bank (12.24); Government of Nigeria (3.05), member states of the Lake Chad Basin Commission (0.60), beneficiaries (0.40)
10. In support of AERC's Research and Capacity Building Activities	15/12/2008 Governance/ policy-based lending (governance, capacity building)	To strengthen local capacity for policy-oriented research on key issues pertinent to African economies; to augment the pool of researchers in sub-Saharan Africa by conducting training, supporting post-graduate studies and improving the capacity of local public universities.	African Economic Research Consortium	RPG	1.00	-



11. The Nyamitanga-Ruhwa-Ntendezi-Mwityazo Road Project	16/12/2008 Infrastructure (transport)	To strengthen cooperation and increase intra-community trade between Burundi and Rwanda by 10-20% by 2018, and improve the living conditions of the population in the project area, by facilitating the movement of goods and persons along the named road. 101 Km of road will be paved, 60 km of rural roads will be improved, socioeconomic infrastructure in the vicinity of the road (health centers, schools and markets) will be protected and rehabilitated. By 2013, average transport time on the road is expected to fall from 8 hours in 2008 to 4 hours, border transit time will be reduced by 50%, the rate of access to socioeconomic infrastructure will be improved by 10%, and access to production and marketing centers will be improved for about 3.2 million inhabitants, 60% of whom are women.	Burundi and Rwanda	Cost-sharing	100.00	Government of Burundi (0.55), Government of Rwanda (0.73)
12. The Multi-Country Demobilization and Reintegration Transitional Support Program	25/02/2009 Human development (social)	To improve the prospects for peace and economic recovery in the Great Lakes Region by facilitating the effective reintegration into their communities of about 10,000 ex-combatants, 1,725 of whom are women; facilitating the repatriation of 7,300 combatants on foreign soils; addressing the needs of 2,000 women and 500 children affected by the conflicts; and strengthening national disarmament, demobilization and reintegration structures through technical assistance.	The Multi-Country Demobilization and Reintegration Program Trust Fund, Angola, Burundi, CAR, DRC, Republic of Congo, Rwanda and Uganda	RPG	14.00	Canada, Finland, Italy, Norway, Sweden (2.31)
13. The Congo Basin Ecosystems Conservation Support Program	11/03/2009 Agriculture and rural development (environment)	To conserve the second largest tropical forest in the world and the second "green lung" of the planet after the Amazon, to contribute to the sustainable and concerted management of forest resources and protected areas, to limit the degradation of the ecosystems, to improve the living conditions of the populations and to strengthen the institutions responsible. The program is expected to design instruments in response to the continued degradation of this forest and climate change.	Economic Community of Central African States, The Central African Forest Commission	RPG	32.00	Economic Community of Central African States (5.00), beneficiaries (0.28)
14. The Support to a Network of African Institutions of Science and Technology Project	18/03/2009 Human development (education)	To establish a network among science and technology institutions in the ECOWAS region; to increase the number and improve the quality of qualified science and engineering graduates by strengthening poles of excellence through development of their programs and activities, the provision of scholarships, and construction and equipment of pedagogical, research and residential facilities. The number of graduates will	The ECOWAS Commission, the African University of Science and Technology,	RPG	12.00	-

		increase from 750 in 2009 to 1,510 in 2012; the number of publications in internationally recognized journals will increase from 6 to 15 per year, and the number of scientific conferences/ workshops/ seminars will increase from 4 to 10 per year.	the International Institute for Water and Environment Engineering			
15. The Nacala Road Corridor Project - Phase I	24/06/2009 Infrastructure (transport)	To provide Malawi, Zambia and the interior of Mozambique with an improved road transport linkage to the port of Nacala; to improve transport services on the corridor; to improve the competitiveness of participating countries in international trade by reducing the cost of doing business; and to improve the access of the communities in the zone of influence to markets and social services and thus contribute to the reduction of poverty by (i) constructing and upgrading to bitumen standard approximately 361 km of road in Mozambique and Malawi and (ii) training local communities along the road in HIV/AIDS awareness and road safety. By 2015, import/export cargo handled at Nacala port will increase from 0.9 million tons per year in 2009 to 1.6 million tons per year; the share of transport and transit cost in import and export prices will be reduced by 25%; average travel time will reduced by 41% (Mozambique) and 60% (Malawi); border delays will be reduced by 36 hours to 6 hours; operating costs per vehicle km will be reduced by 36%; fatality rates will be reduced by 2 percentage points per year.	Malawi, Mozambique and Zambia	Cost-sharing	117.04	Japan International Cooperation Agency (51.83), Government of Mozambique (25.48), Government of Malawi (1.59)
16. The Mombasa-Nairobi-Addis Ababa Road Corridor Project - Phase II	01/07/2009 Infrastructure (transport)	To promote trade and regional integration between Ethiopia and Kenya by (i) improving the transport corridor between the two countries, leading to an increased volume of Ethiopian transit goods using the port of Mombasa, (ii) expanding market sizes beyond national boundaries, and (iii) fostering a conducive and enabling environment for the private sector and for attracting foreign direct investments. The project will also contribute to poverty reduction in both countries by increasing access to markets and social services for the surrounding communities, and by empowering women and other disadvantaged groups through adequate roadside socio-economic infrastructure and services. The project involves the construction to bitumen standard of 438 km of road sections; training of management and staff of roads agencies in road management, monitoring and evaluation, financial management and procurement; and sensitization of the population of the project area and road users to road safety and sexually transmitted infections including HIV/AIDS. Trade between Ethiopia and Kenya is estimated to grow from US\$ 48 million in 2007 to US\$ 200	Ethiopia and Kenya	Cost-sharing	210.00	European Union (76.00), Government of Ethiopia (16.82), Government of Kenya (26.18)

		million (a growth of 500%) by 2017; average transport cost per vehicle-km is expected to be reduced by 20% by 2011 and by 50% by 2014; transit and travel time of currently 5 days between Addis and Nairobi will be reduced by 20% by 2011; and by 60% by 2014.				
17. The Ketta-Djoum Road and Brazzaville-Yaounde Transport Facilitation Project	25/09/2009 Infrastructure (transport)	To facilitate the movement of people and goods between Cameroon and the Republic of Congo; to improve the service level of the logistic chain on the Yaoundé-Brazzaville transport route; and to improve the welfare of populations in the project area through (i) major and minor works on 504 km of roads, including space for the installation of optical fiber; (ii) rehabilitation of social infrastructure including schools and health centers; (iii) construction and equipment of a single border checkpoint, including training of border authorities; and (iv) sensitization of populations and road users on road safety, environmental protection and sexually transmitted infections including HIV/AIDS. By 2014, the rate of commercial transactions between Cameroon and Congo will increase from 4% in 2009 to approximately 15%; the mean overall travel speed on the Yaoundé-Brazzaville road axis will increase from 30 Km/h in 2009 to 80 km/h; average vehicle operating costs will decrease from CFAF 816/km in 2009 to CFAF 367/km; the mean walking distance to reach an all-season road will decrease from 6 km on average in 2009 to 2 km.	Cameroon and the Republic of Congo	Cost-sharing	121.60	Government of Cameroon (6.59), Government of the Republic of Congo (80.88)
18. The Bugesera Natural Region Rural Infrastructure Support Project	25/09/2009 Agriculture and rural development (agriculture)	To help reduce poverty in the Bugesera region, specifically, to improve the food security of the 834,000 population by sustainably increasing agricultural production; building irrigation infrastructure, access roads and storage facilities; and conserving water and the soil. 8,000 hectares (ha) of lakes and marshlands will be protected; 3,500 ha of marshlands will be developed; 1,500 ha will be developed for hillside irrigation; 10,800 cattle and goats will be distributed to farmers, including 55% to women; 100 km of rural access roads will be rehabilitated; and 60 storage facilities set up. The proportion of the population living below the poverty line is expected to be reduced from 60% to 40% in 2020; average income of direct beneficiaries to increase by about USD 1,600 per annum on project completion; cereal production to increase from 11,000 ton in year 1 to 34,000 ton on project completion; market garden production to increase from 86,000 tons in year 1 to 146,000 tons on project completion.	Burundi and Rwanda	Cost-sharing	30.00	-

19. The Dar Es Salaam-Isaka-Kigali/Keza-Musongati Railway Project Study (Phase II)	17/11/2009 Infrastructure (transport)	To provide an optimal engineering design of the Dar es Salaam-Isaka-Kigali/Keza-Musongati railway line, to prepare procurement documents and to recommend public-private partnership models for financing the project and managing railway infrastructure, with a view to the rehabilitation, by 2018, of the existing 970 km Dar es Salaam - Isaka railway line and construction of 700 km of new railway lines towards Rwanda and Burundi, in order to diversify trade channels and increase inter-regional trade.	Burundi, Tanzania, and Rwanda	Cost-sharing	4.95	Government of Burundi (0.083), Government of Tanzania (0.083), Government of Rwanda (0.084)
20. Institutional Support to African Climate Institutions	17/11/2009 Agriculture and rural development	To enhance the capacity of four African climate centers and selected African scientists to generate appropriate climate-relevant data and information and disseminate these through appropriate channels to approximately 480 million people in 25 countries who directly depend on climate sensitive sectors in Africa. By 2012, 25 ground meteorological and upper air stations will be rehabilitated, at least one well-functioning sub-regional early warning system will be implemented in each region (West, North, Central, East and Southern Africa), and at least 750 students, civil servants and journalists will receive training on climate-related issues. By 2015, regional downscaled climate scenarios will be developed for each of the 5 regions, and further downscaled climate scenarios and decision-support systems at national and sub-national levels will be made available in at least 25 countries in Africa.	The African Center for Meteorological Applications for Development	RPG	20.00	Beneficiary agencies (4.23)
21. Souapite Hydro-electric Site Study	Pipeline Infrastructure (power)	To produce feasibility reports, detailed drafts and procurement documents for the preparation and management of the hydroelectric site. The energy that will be produced at this site will be transported by the 225 kV electricity transmission network from Guinea to Senegal through Gambia and Guinea Bissau. A 225 kV electricity transmission line will supply energy to Sierra Leone.	The Gambia, Guinea, Guinea-Bissau, Sierra Leone and Senegal	Cost-sharing	2.00	-
22. The Nacala Road Corridor (Phase II)	Pipeline Infrastructure (transport)	Phase II of project number 15 above: rehabilitation of 360km of border road in Zambia and pavement and rehabilitation of 70km of road in Malawi; training local communities along these roads in HIV/AIDS awareness and road safety.	Malawi, Mozambique and Zambia	Cost-sharing	54.00	-

23. Support to Regional ICT Center of Excellence	Pipeline Human development (education)	To create an institution of higher learning and research focused on graduate level training and the development of high level skills, research and innovation in ICT-related fields. The institution will be located in Rwanda and will have a regional mandate. The ADF will contribute to the construction of the infrastructure (buildings and related facilities) and provide the relevant equipment.	Rwanda	RPG	15.00	-
24. Lake Victoria Water and Sanitation Program	Pipeline Infrastructure (water and sanitation)	To help 15 secondary urban towns in the Lake Victoria Basin to meet the water and sanitation-related Millennium Development Goals and to ensure the long term sustainability of the physical interventions by improving water supply and sanitation, solid waste management, drainage in key areas, as well as building capacity and training.	Burundi, Kenya, Rwanda, Tanzania, and Uganda	RPG	50.00	-
25. Ouessou-Ndjamena-Bangui Road Project Study	Pipeline Infrastructure (transport)	To produce feasibility reports, detailed drafts and procurement documents for the construction, upgrading and rehabilitation of missing sections on the Economic Community of Central African States' Ouessou-Bangui-Ndjamena Corridor.	Congo Republic, CAR, Chad	Cost-sharing	4.00	-
26. Congo-Oubangui-Sangha River Navigation Study	Pipeline Infrastructure (transport)	To produce feasibility reports, detailed drafts and procurement documents with a view to widening and deepening the Oubangui river and managing the waterway and its river ports so as to revitalize navigation.	Congo Republic, DRC, CAR	Cost-sharing	4.00	-
27. Mano River Union Energy Program	Pipeline Infrastructure (energy)	To construct 1,360 km of high voltage transmission lines, including substations, to facilitate the exchange of power and the supply of low-cost energy from Côte d'Ivoire to Liberia, Sierra Leone and Guinea. Ultimately the program will lead to the development of hydro power sources in the region.	Côte d'Ivoire, Sierra Leone, Guinea and Liberia	Cost sharing	30.00	World Bank (91.00), European Investment Bank (68.00)
28. EAC Integrated Regional Payment System Study	Pipeline Governance (capacity building)	To explore the feasibility and the required actions for integrating the payment systems of Burundi, Kenya, Rwanda, Tanzania, and Uganda. While almost all these countries have a Real Time Gross Settlement system, these systems are currently not integrated at the regional level.	East African Community	RPG	2.00	-

**Notes:** ICT=information and communication technologies; kV=kilovolt; RMCs=regional member countries

**Source:** African Development Bank

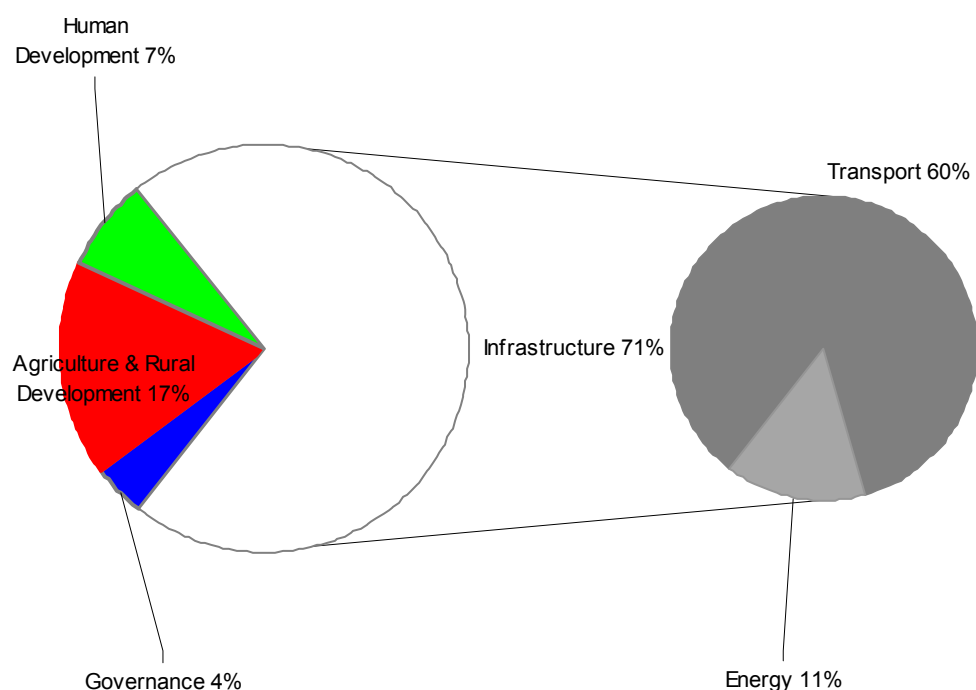
**Table II-5: Summary of Regional Operations Approved During ADF-10 and ADF-11, Including Pipeline**

(UA millions)

Sector	ADF-10		ADF-11			
	Count	Total (all from regional operations envelope)	Count	Regional operations envelope	Performance-Based Allocations	Total
Agriculture and Rural Development	6	84.29	4	113.48	11.13	124.61
Governance	4	17.64	4	38.77	-	38.77
Human Development	4	65.00	4	62.31	-	62.31
Infrastructure	20	407.49	16	748.92	346.24	1,095.15
<b>Total</b>	<b>34</b>	<b>574.43</b>	<b>28</b>	<b>963.48</b>	<b>357.37</b>	<b>1,320.84</b>

**Note:** ADF-11 figures include grant surcharge

**Figure II-6: Sector Distribution of the Full Ongoing ADF Regional Operations Portfolio, by Volume**



**Source:** African Development Bank

## **Annex III: Criteria for Step Two of the Enhanced Selection and Prioritization Process**

### ***Quality at Entry and Readiness for Implementation, informed by Readiness Reviews***

Readiness Reviews form part of the African Development Bank Group's internal project preparation, peer review and validation process, and advise project teams on strengthening the quality and readiness of operations. They thoroughly assess all potential operations both at the concept stage and at the appraisal stage and are conducted by the Quality Assurance Division, which draws on expertise in procurement, fragile states, regional integration and other areas where appropriate. The reviews examine a number of quality-at-entry dimensions, including the alignment and strategic fit of the operation with country and African Development Bank Group priorities; the status of prior operations and lessons learned; the rationale of the operation's design and its ownership; the operation's results focus and risk assessment; environmental and social safeguards; financial management and procurement; and implementation arrangements and sustainability. The latter are especially relevant for regional operations (ROs), as inadequate implementation arrangements are the most common cause of problems and delays. The results of the examination and the relevant recommendations for improvement feed into the discussions and further the project design and preparation work of the project teams. The reviews are supplemented by a set of quality-at-entry standards which set out the criteria for a good quality operation for each of the dimensions examined.

Readiness Reviews provide information that Senior Management can use to determine which operations are ready for approval and implementation and which require further preparation.

### ***Development impact***

In developing criteria on development impact, the African Development Bank will draw on lessons learned from the ex ante assessments of expected development outcomes it currently applies to its private sector operations. These assessments consider the following eight categories: economic performance, government, environmental effects, gender and social effects, private sector development and the demonstration effect, business success, infrastructure, and macroeconomic resilience. From this framework, it will be possible to construct a development outcome scorecard/ranking for regional operations ROs, with outcome categories explicitly or implicitly weighted to reflect Bank priorities. While all categories are relevant to ROs, the last two are of prime importance. Also, because the information available during Step Two of the RO prioritization process is expected to be limited, a simplified framework with a smaller number of categories and a dichotomous ("yes/no") score is proposed: the assessors will consider the expected development outcome of each RO in the Step One pipeline in recommending whether to proceed with further development of the operation. It is then up to Management to decide whether to keep the operation in the pipeline.

To operationalize Step Two of the prioritization process, it is critical that (i) the adopted framework be developed in consultation with operational departments and reflect a workable adaptation of the current development outcome assessments framework, and (ii) sufficient human and financial resources are available for the assessment. A minimum level of information about the expected outputs and development outcomes (against a baseline such as the current situation) in operations' main areas of focus will also be required.

### ***Climate change***

Adaptation will remain the most important part of the ADF's response to climate change. With the Copenhagen Summit now over, it has become more important than ever to ensure that the funds allocated to multilateral institutions maximize opportunities for low carbon growth. In the context of the African Development Fund's regional operations, these opportunities often consist of power grid connections or transport corridors.

The climate change criteria in Step Two will emphasize low-carbon options. For example, transport sector investments will prioritize rail and water over roads<sup>28</sup>. When a road is the only viable option, measures to minimize negative environmental impacts and maximize public transport will be suggested. In the case of cross-border projects, it will be preferable to minimize waiting times at customs posts to reduce carbon emissions from idling heavy vehicles.

Energy-sector investments could prioritize energy efficiency, demand-side management, renewable

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<sup>28</sup> A recent study from the Institute for Energy and Environmental Research in Germany shows that freight railway and waterways in Europe produce around one half to one third of the CO<sub>2</sub> emissions of heavy road haulage.

energy and regional grid financing in support of renewable resources. Deepening the ADF's collaboration with the Global Environment Facility and Climate Investment Funds could help generate resources to pay the additional costs associated with climate-friendly options.