

Revised Terms of Reference
ADF Working Group on Innovative approaches for ADF-14

Objective

Facilitate discussions on innovative approaches to (i) sources of funding for ADF-14, including sources outside the current grant model, and (ii) instruments to deploy ADF resources more effectively. The sources and instruments should be consistent with the financial sustainability of ADF, its core funding and underlying assumptions (e.g. potential for graduation of several ADF countries in the coming 5 years, 2014-2019). These discussions will be informed by exchanges on the broader strategic context for the operation of the ADF, including trends in concessional resources, in particular ODA to sub-Saharan Africa; discussions on the global development finance architecture and the role of ADF within it; the future composition of the ADF clientele; and the business model of the Bank Group, notably the articulation between ADB and ADF.

Composition

- The working group consists of ADF Deputies or their appointed representatives. Membership is open and voluntary. Representatives from African donor and recipient countries and other international financial institutions will be encouraged to participate in the work of the group. All Deputies and observers will be copied on the communications of the working group.
- Two co-chairpersons will be selected from amongst the working group members, with ADF staff performing the Secretariat function for the working group.
- The group may invite researchers, technical consultants and others to contribute to its work.

Functioning

- The working group will be a discussion forum with a consultative role, which will present its findings on options reviewed to all ADF Deputies and observers for consideration during the ADF-14 replenishment consultations. In its deliberations the working group will respect the issues that are within the purview of the ADF Board of Directors.
- The working group will have a longer term perspective within the Bank's 10 year strategy and will recognize the significant potential changes in ADF clientele during this timeframe
- AfDB will carry out the Secretariat functions of the Working Group while strategic documents and policy papers as well as broader initiatives may be issued by the working group members or commissioned to feed into the analysis of the working group summarized by the Secretariat.
- The Secretariat will also ensure that relevant documents will be shared among members using the secured website. Knowledge products or any piece of work undertaken by the WG's members should be shared with the ADF working group secretariat.
- The working group will disclose its findings and report to all ADF Deputies and observers as the work progresses.
- The first meeting of the working group will be held during the AfDB Annual Meetings in Kigali, May 2014, and the second meeting will take place on the margins of the IMF/World Bank Annual Meetings in October 2014. It will present its final report to the ADF-13 Mid-Term Review, Q4 2015.
- The working group members will in addition meet as required and can also carry out their exchanges and discussions in-person, through a dedicated website, email, audio and/or video conferences.
- The working group may make presentations to or consult with ADF Deputies, RMC Representatives, representatives from other IFIs and observers on the margins of relevant gatherings such as the AfDB Annual Meetings or IMF/WB Annual Meetings.
- It will collaborate with similar working groups established in the context of other IFIs, in particular IDA-17, so as to make the most effective use of the analytical work being done and the discussions taking place.

Issues for discussion

The working group will exchange views on the strategic context in which the ADF operates. This strategic context includes elements such as: (i) ongoing discussions on the global development assistance architecture and the future of concessional funding; (ii) trends in ODA and projections of HIPC and MDRI costs; (iii) ADF countries' growing access to market financing; (iv) expected developments in the composition of the ADB's and ADF's clientele; (v) Bank Group policy changes such as the recent amendment of the Credit Policy; and (vi) the consequences of this all for the long-term financial sustainability of the ADF and for the Bank Group's business model, in particular the articulation between ADB and ADF.

This exchange will inform subsequent more technical discussions on innovative approaches to sources of funding for ADF-14, including sources outside the current grant model, and instruments to deploy ADF resources more effectively. Other elements informing these discussions are a series of scenarios, projections and options to be prepared by Management as well as review of possible funding sources and financial instruments previously examined by ADF Deputies¹ and in other IFIs.

The working group will explore opportunities to expand the sources of funding for ADF-14, including but not limited to:

- Measures to expand the donor base of the ADF;
- Other forms of contribution, such as contributions from ADF donors in the form of concessional loans in complement to the current grant model. ADF-14 could witness several countries achieving blend or gap status (with harder lending terms), which, together with stable macroeconomic conditions (low interest rates) and the existing price differentiation in the ADF, could justify a moderate amount of debt funding in the ADF;
- A - Loan Buy-Down instrument: Offer to donor countries (and other interested parties) the possibility of (p)repaying to the ADF the outstanding amount of a loan (or particular set of loans) owed by a given ADF country. This product could be of particular interest for Donors when linked to performance based results.

The working group will develop and assess innovative uses of ADF resources. This may include the following ideas:

- Blending facilities (interest buy down): combining ADF concessional financing with ADB lending. The concept builds on the Modified Framework for Assistance to Creditworthy Countries under the ADF, an instrument already discussed during the 1st meeting of ADF-13, that had good acceptance from Deputies but was finally not selected due to the limited financial impact (since only one country could potentially benefit from it at that time). The prospects for graduation for several ADF countries could increase the demand for the product;
- Options for using the ADF to enable greater use of the ADB's capital, based on the example of the recently introduced Private Sector Credit Enhancement Facility, which leverages ADB investments in low-income countries.

The working group will decide on a more detailed list of the issues to examine in-depth at its second meeting.

¹ During the ADF-13 first replenishment meeting, six innovative financing instruments were presented to the ADF Deputies in the context of the discussion on the Fund's long-term financial sustainability. Based on Deputies' guidance, Management narrowed down its proposal to two instruments- the Partial Credit Guarantee (PCG) and a Private Sector Credit Enhancement Facility (PSF)- that were endorsed by ADF Deputies during the second replenishment meeting. The criterion to prioritize those instruments over the others was a combination of 4 factors: (i) ease of implementation and limited administrative cost; (ii) limit the number of set asides; (iii) demand; and (iv) leverage and financial impact. With the evolving circumstances, Management considers it worthwhile to revisit some of the other four instruments, with a view to further improving the use of ADF resources and its financial capacity.

Some Preliminary Background Documents

- *Long-Term Financial Capacity of the ADF*, discussion paper, ADF-13 first replenishment meeting, Tunis
- *ADF-13 Innovative Financing Instruments*, discussion paper; ADF-13 second replenishment meeting, Tunis