

**African Development Fund Working Group Innovative Approaches for ADF-14**  
**4<sup>th</sup> Meeting: Abidjan, Cote d'Ivoire, 29-30 May, 2015**

**Chairs' Summary**

1. The ADF-14 Working Group (ADF WG) held its fourth meeting in Abidjan, Cote d'Ivoire, on 29-30 May, 2015. The meeting was led by the ADF WG co-chairs (South Africa and United Kingdom). With the exception of Egypt and Luxembourg, all the members of the ADF WG were present. Also in attendance as observers were representatives from the Governments of Angola, Belgium, Denmark, India, Korea, Portugal, Norway and the World Bank. The Bank's team was led by the Finance Complex Vice President.
2. The main objective of the meeting was to continue the discussions on innovative financing for ADF-14, started at the Bank's Annual Meetings in Kigali (May 2014), and continued at the ADF WG's second and third meetings in Washington (October 2014) and in London (February 2015). The discussions were informed by four discussion papers and several PowerPoint presentations which had been prepared by the Bank at the request of the ADF WG. The agenda of the meeting is in Annex 1.

***General issues***

3. Overall, participants commended the quality of the documents prepared by the Bank as well as the diversity of ideas included in the corresponding discussions. A general observation from participants was the need for further analysis on the demand for each proposed option, the corresponding interest of donors, and the potential burden on the Bank's administrative capacity.
4. Participants stressed yet again the need for coordination and complementarity between the ADF and IDA, so as to better chart the way for future collaboration between the two institutions while also harnessing the comparative advantages of each institution. It was particularly important to take account of the combined impact of changes made by IDA and other IFIs on clients rather than just looking at each in isolation.
5. Participants welcomed Matthew Martin's presentation on potential risks with the sovereign debt of ADF countries and the implications for concessional lending. They likewise welcomed Pierre Jacquet's presentation on the thinking outside the box on the use of concessional resources.

***Specific issues and key recommendations***

6. ADF Graduation: Implications for the AfDB and its Client Countries: It is expected that by 2022, i.e. in 2 ADF cycles, the number of non-creditworthy ADF countries will fall from 35 to between 31 and 34. While this is not a large decrease, ADF-only countries will increasingly be fragile and conflict-affected ones, characterized by weak state capacity and vulnerability to a range of shocks. Whereas the needs of this subset of states are expected to continue, bilateral aid is projected to remain limited—underscoring the continued need for MDB concessional resources and the need to develop tailor-made mechanisms aimed at addressing the specific needs of ADF eligible countries. Conversely, over the same period, 3 countries (Cape Verde, Congo Republic and Nigeria), currently eligible to ADF should graduate to the ADB window.

**Conclusions:** Participants agreed that with the exception of the potential graduation of Nigeria as well as the shift to blend and/or gap status for several countries, no major changes in the composition of ADF clients are expected to take place over the next two ADF cycles as few countries should graduate during that period. However, they underscored the need for the Bank Group to better understand how to prepare for graduation over the medium term, including continued full engagement with the countries on the path towards graduation. In this regard, several participants also emphasized the need for a discussion about the respective roles of the ADF and IDA, including on such matters as assisting countries to respond to the needs of pockets of poor populations trapped in graduating countries, domestic resource mobilization, debt management, diversification of economies and structural transformation. Some participants underscored the need to be conservative in the Bank's graduating scenarios given the inherent difficulties associated with any projections. Other participants mentioned the willingness of some ADF donors to consider rethinking the length of the transition period as well as special terms for poverty-related operations in graduated countries.

7. Concessional donor loans (CDLs): Participants welcomed the further consideration of this proposal, with some of them registering interest in further exploration of this option. Other participants expressed some reservations, mostly about the risk of substitution from grants to loans – a concern previously highlighted during the London meeting of the Working Group in February. All participants agreed with the need for further analysis on the potential demand for CDLs. Participants also stressed that discussing specific parameters for CDLs is premature at this stage, as that should only be done as part of Replenishment discussions. Participants did however note that the proposed conditions in the paper (i.e., 90% as minimum grant contribution, 1.75% as discount rate, 0.50% as maximum interest rate, etc.) might deter possible additional financial flows to ADF and would need to be revisited. Lastly, participants also noted the importance of transparency in negotiation process should this option be retained.

**Recommendation:** There is willingness to continue discussions on this instrument as part as the ADF replenishment discussions. Documents prepared for ADF 14 will detail/clarify (i) the rationale and the demand for the instrument, (ii) donor appetite for the product, (ii) the potential substitution risks and how to manage them, (iii) potential administration costs, (iv) discount rate(s) to be used; and (v) lessons from IDA's experience both with the framework of their CDL product, but also, with its administration.

8. Accelerated encashment schedule: Participants recognized the potentially significant resource effect that can be generated by the proposed accelerated encashment schedules. However, participants noted that it would be impossible to apply binding shortened schedules for all donors that were not justified by any changes in the average disbursement schedule of AfDF projects. Instead, participants suggested that this option should be considered only on a voluntary basis, as is currently the case. Participants especially noted that current fiscal constraints may affect donors' ability to provide subscriptions based on an accelerated encashment schedule. Some participants also mentioned the need for the Bank to revisit its liquidity policy.

**Recommendation:** A modified encashment schedule would be proposed during the ADF-14 replenishment meetings to better match the encashment schedule with actual disbursement trends in the Bank, which are shortening anyway. The Bank will provide a review of its liquidity policy and its application as part of the Replenishment process.

9. Buy-down Mechanism: Participants largely supported this option as one deserving further consideration. Of the two options presented in the paper, there was majority support for Option B (provision of grants at the country level), largely because of its relative simplicity in terms of institutional arrangement as well as its proposed gradual phasing-in. In light of the gradual phasing-in, participants underscored the need for eligibility criteria to be developed, with a preference for blend and graduating countries to be the initial recipients.

***Recommendation:** The ADF WG is interested in pursuing discussions on this instrument during the ADF-14 Replenishment. However, further analysis should be undertaken to better assess eligibility criteria, the long term impact of the mechanism on the ACC, the Donors' grants compensation scheme and the AfDB's portfolio.*

10. Synergies/complementarities of the various proposed options: Participants especially welcomed this presentation which allowed for a discussion of the potential synergies and tradeoffs between the various options and their combinations, including the Bridge Loans option, which had been discussed during the 3<sup>rd</sup> Working Group meeting in London.

In general, participants expressed appetite for all options including the Bridge Loans, whose potentially significant (and largely transaction cost free) impact on the ACC for ADF-14 and ADF-15 was discussed. Participants also noted that as the proposed CDLs and the Buy-Down Mechanism both target the same client countries on the path of graduation, further consideration is needed as to whether it would be feasible to use both in combination.

***Recommendation:** Participants requested further analysis of the mechanics, interplay and potential costs of adopting the various proposed options together.*

#### ***Next steps***

11. WG members will produce a report to be used as input into the MTR. The first draft report will be circulated in July 2015 for comments. In the meantime, it was agreed that the ADF Board of Executive Directors will be informed of the content of the last ADF WG meeting.
12. The MTR will take place during the week of November 9, 2015 in Côte d'Ivoire. Participants were informed that Richard Manning had been confirmed as coordinator for the ADF-14 Replenishment and will be part of the MTR.
13. Participants requested that an update on any work supported by the ADF Policy Lab funded by the Bill and Melinda Gates Foundation trust fund will be made during the MTR.
14. As has been the case in the past, beneficiary countries will be invited to participate in the ADF MTR. It was suggested that different categories of recipients be invited, (i.e. ADF-only, blend, gap and graduating). Other dynamics such as regional representation, fragility and language should also be considered.