



Terms of Reference **ADF Working Group on Innovations**

Context

The African Development Fund (ADF or “the Fund”) is the African Development Bank Group’s main vehicle for assisting Africa’s poorest countries. The Fund is a longstanding partnership between donor countries and recipient African countries and an important source of financial and technical assistance for some 40 low-income countries (LICs). Its past successes reflect the particular combination of assets the Fund brings together: not only financial resources, but technical depth across a wide range of economic and social issues, country knowledge, and fiduciary and legal capacity. All of these elements have been brought to bear in the Bank Group’s policy engagements with Africa’s LICs, which over four decades helped spur growth and policy reform across Africa.

As we now enter an era that looks very different from the one in which the ADF was created almost 45 years ago, there are major shifts in the international development finance landscape that have created new challenges and opportunities for Africa’s LICs as they try to access external finance for their development priorities. Specifically, the international community has set very ambitious Sustainable Development Goals (SDGs) as part of the 2030 Agenda for Sustainable Development that bring together economic, social and environmental priorities. These goals are ambitious, and they demand equal ambition in using the “billions” in ODA and in available development resources to attract, leverage, and mobilize “trillions” in investments of all kinds: public and private, national and global, in both capital and capacity. This will require making the best possible use of each dollar from every source, drawing in and increasing available public resources as well as private sector finance and investment.

The SDGs fit accurately with Africa’s priorities for the next two decades and achieving them remains an unfinished business for many ADF countries. Coupled with Agenda 2063, the continent’s own development vision, the SDGs allow ADF countries to aspire to fulfil major development objectives in the coming years. This is especially challenging as it will necessitate the mobilization of adequate financial resources (including concessional ones), and their effective deployment for poverty reduction, the transformation of economies, and the creation of the conditions for inclusive and sustainable prosperity.

Objective

The overall objective of the ADF Working Group is to facilitate discussions on innovations to address structural issues on the future of ADF and how it can most effectively and efficiently contribute to the developing agenda of Africa’s LICs, which are its most vulnerable states.

Any proposed innovation (approaches, mechanisms, instruments, etc.) should be consistent with (i) the Fund’s primary development mandate; (ii) its long-term financial sustainability; and (iii) its core funding and underlying assumptions, particularly the potential for graduation of several countries in the medium-term (i.e., through the Bank Group’s current strategy period that runs till 2022).

These Working Group’s discussions will be informed by exchanges on the broader strategic context for the operation of the ADF, including trends in concessional and non-concessional resources and general ODA to sub-Saharan Africa; discussions on the global development

finance architecture, including the role of various MDBs in Africa; the future composition of the ADF clientele and their debt sustainability.

Composition

- The Working Group consists of ADF Deputies or their 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 Mid-Term Review. 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 High5's and will consider the new global development agenda, including the Addis Ababa Action Agenda development finance framework adopted in 2015 to help achieve the Sustainable Development Goals.
- ADF staff 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 are shared among members using a secured website. Knowledge products or any piece of work undertaken by the Working Group's members should be shared with the 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 Ahmedabad (India), in May 2017, and the second meeting will take place on the margins of the IMF/World Bank Annual Meetings in October 2017. In addition, other meetings of the WG will be arranged as required and as agreed by members.
- Members may 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.

Issues for discussion

As stated earlier, the overall objective of the ADF Working Group will be to facilitate discussions on innovations to address structural issues on the future of ADF and how it can most effectively and efficiently contribute to the developing agenda of Africa's LICs, which are its most vulnerable states.

The strategic context of the Working Group's discussions will be the ecosystem within which the ADF operates, including such issues as: (i) the financing needs of the Bank Group's Ten-

Year Strategy and the High 5 operational priorities endorsed by the Board of Directors¹; (ii) the need for an unprecedented levels of development finance from all sources, including from the public and private sectors as recognized in the Addis Ababa Action Agenda; (iii) the trends in global ODA and protracted fiscal pressures in many traditional donor countries; (iv) the growing access to market financing by Africa's LICs; (v) projected changes in the composition of the ADF's clientele and their implications; (vi) recent Bank Group policy adjustments (e.g., the 2014 Credit Policy adjustment) and their implications for Africa's LICs; (vi) the recent introduction of a debt component in the ADF's financing framework and its long-term implications for the financial sustainability of the ADF; (vii) the ADF's institutional capacities and its comparative advantages vis-à-vis other sources of development finance.

This exchange will inform subsequent more technical discussions on:

1. The financing model for the ADF best-suited to meet the challenges relating to the new development agenda, including innovative approaches to diversify the Fund's funding sources outside the current grant / concessional donor loan model. Such innovations may include, but not be limited to: (i) allowing ADF to borrow from the international capital markets on its own balance sheet; and (ii) transferring part of the ADF's assets and equity to the AfDB to increase its equity base and leverage it to increase financing resources. Complementary to its work on resource mobilization, development effectiveness and the achievement of concrete results on the ground with high quality projects will remain at the center of the Working Group's priorities.
2. Innovative instruments to deploy ADF resources more effectively, including for private sector development. In this regard, the Working Group will also develop and assess innovative uses of ADF resources aimed at crowding in private sector financing in ADF countries, notably through the use of blended finance. Options may include:(i) establishing a blended finance instrument to provide local currency financing to eligible countries; (ii) using blended finance to facilitate ADF-backed bond issuance to increase the Fund's financing capacity; (iii) using blended finance to enable ADF entering synthetic securitization, where, for example, the ADF leverages its existing and future loan portfolio cash flows to raise additional funding; or (iv) increasing the capacity and breath of the Private Sector Credit Enhancement Facility (PSF) and diversifying its products, customers and eventually participants at its capital. Deliberations on the ADF's efforts to promote private sector development will be guided by the principle of additionality and will primarily seek to address market failures in ADF countries, especially in countries affected by situations of fragility and where investment environments need significant improvements.
3. Options for improving ADF resource allocation, particularly on issues of fragility and vulnerability. In particular the Working Group will consider options informed by external advisory work on how to better take the fragility/vulnerability into consideration in the ADF's-resource allocation system. The objective is to come to the ADF14 Mid-Term Review (MTR) with concrete proposals, if deemed relevant, that could be part of the conversations on the ADF-15 replenishment.
4. How to improve the ADF replenishment process, taking into account lessons from ADF14 as well as recent replenishments processes of sister institutions, notably the International Development Association (IDA) of the World Bank Group. In particular, questions relating to the length of the ADF cycles, the frequency and the location of the meetings.
5. Potential adjustments to the governance of the ADF

Deliverables

The working Group will present a final report at the ADF14 MTR, which is expected to take place in the Fourth Quarter of 2018.

¹ These High 5's are (i) Light up and power Africa; (ii) Feed Africa; (iii) Industrialize Africa; (iv) Integrate Africa; and (v) Improve the quality of life for the people of Africa.