

Overview Paper ADF-13 Strategic and Operational Directions

Discussion Paper

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AFRICAN DEVELOPMENT FUND

Executive Summary

Under the Thirteenth General Replenishment for the three-year cycle from 2014 to 2016 (ADF-13), the African Development Fund aims to strengthen its role in and responses to ADF countries. The cycle will mark 40 years of delivering results for the development of ADF countries. Guided by the Bank Group's Long Term Strategy (LTS) for Africa, the Fund will promote inclusive growth and help ADF countries make a gradual transition towards greener growth. With Africa rapidly transforming, the Bank Group intends to be at the center of Africa's transformation for the coming decade.

'A unique proposition – the African Development Bank Group. An African organisation serving Africans, the Bank's legitimacy lies in its African character, and its central place in the African architecture. It is a motor for economic progress and integration, and the voice of African development, across and far beyond the Continent. Consistently maintaining its AAA rating, its status is globally acknowledged.

Independent research makes clear that the Bank is already the clear partner of choice for African governments, and that Africans are willing it to be globally acknowledged as the premier development institution in Africa. It is rated as exceptionally strong in aspects of its strategic and operational management, and good in almost all others. All observers see room for continued Bank improvement, but attest to the fact that it has bettered the lives of millions of Africans. As relevant for its fragile states as for its richer and more stable members, it is seen as both a channel and a focal point for African resilience. Its counsel is valued as much as its funding. As catalyst, convener, connector – and as a source of innovation and best practice across the continent – its partnerships in Africa and beyond are the key to its position of trust, as the partner of choice for governments and people alike.

Africa has made substantial development progress. Between 2000 and 2010, Africa had 6 of the 10 fastest growing economies on the planet, sustaining annual economic growth in excess of 5%. Foreign direct investment is set to exceed USD100 billion annually through 2017. As the second fastest growing region after Asia, Africa will play a vital part of the global economy, and its transformation will support economies in other regions of the world as well. A middle class of more than 300 million Africans will be driving this transformation.

The global business balance is shifting, and Africa is assuming new roles in this new equation, with a rebalancing of global commodities and resources upending many economic and business models. Consumption is also shifting to Africa, with its burgeoning middle class and its considerable opportunities for capturing a demographic dividend.

The ADF has helped Africa achieve these results. Shareholders have repeatedly expressed appreciation for the ADF's focus and selectivity on a limited number of operational priorities, led by infrastructure, urging it to excel in those areas. The Fund plays a leading role in fragile states, and the Fragile States Facility offers a unique structure to provide differentiated support to their diverse needs. It also supports regional integration through the special Regional Operations Envelope of the ADF.

But significant challenges remain, especially in poor countries and fragile states. The 40 ADF countries include those that are increasing their economic capacities and heading toward becoming the new emerging markets—as well as those that remain fragile and need special assistance for basic levels of service delivery. The ADF has the challenge of having nearly half its client countries as fragile states, and facing a situation where even stable economies can become fragile due to a single internal or external shock. While some strong progress was recorded toward the Millennium Development Goals (MDGs), most of Africa lags behind on all the goals, and fragile states have not achieved a single MDG. The post MDG agenda will increasingly be African. With more than half the world's poor today, Africa will have five-sixths of the world's poor by 2025.

The ADF is best placed to help this heterogeneous group of countries address these challenges and to differentiate its responses. For both sets of countries the ADF will be a responsive and innovative source of capital, knowledge and policy, as well as a catalyst, convener and voice in international forums. The concessional resources of the ADF will be the main funds for these countries, putting the Bank Group in a unique position to be at the center of Africa's transformation. The Bank Group has been a leading voice for inclusive growth at the recent Africa Economic Conference in Kigali—and for the transition to green growth at the recent United Nations Conference on Sustainable Development in Rio (Rio+20).

The Bank Group, the only development finance institution that has a continent-wide mandate, is majority African-owned and 100% focused on Africa. Through its research and staff it has deep knowledge of Africa's institutional history and political economy, giving it credibility and legitimacy among its clients. Partnerships based on trust, the basis for frank dialogue, are being reinforced by the Group's moving closer to its clients through decentralization. In 2012 it became the first Multilateral Development Bank to commission an extensive client survey, *The Preferred Partner? A Client Assessment of the African Development Bank*, and it is now implementing the recommendations.

Strategic and operational priorities to build inclusive African economies. The new Long Term Strategy proposes to improve the quality of growth in Africa by making it more inclusive and by helping countries gradually transition towards greener growth. To support this, the Fund's operations will aim to address inequalities and high youth unemployment. Partnering with donors and other institutions, the Fund will focus on its comparative advantages and core operational priority areas in infrastructure, regional integration, private sector development, governance and accountability and skills and technology. Given the unique ADF client base and geography, there will be three areas of special emphasis: fragile states, agriculture and food security, and gender. To accelerate progress on gender, the Fund will change the way it works to better support women, half the continent's people, currently lacking equal access to opportunities.

In all these areas the Fund will focus on delivering results.

Demonstrating institutional resilience and effectiveness. The Fund, which has proven to be a strong, resilient and responsive institution, will achieve its mandate by furthering its decentralization, being closer to its clients and addressing internal issues to strengthen the quality of its assistance. The relocation to its headquarters in Abidjan is planned to take place during the course of ADF-13. Listening to independent evaluations of its operations and to participatory voices of civil society partners will add to the inclusiveness of the ADF-13.

Meeting the specific needs of the Fund. ADF-13 has an ambitious agenda, supported by the momentum of the Bank Group under its new Long Term Strategy. An ambitious agenda requires an ambitious resource envelope. The limited Advance Commitment Capacity and the continuing substantial needs of ADF countries imply that strong efforts will be required from both the Bank Group and donors to sustain the Fund's development assistance to eligible regional member countries.

For regional integration alone, a pipeline of UA 3.7 billion is at an advanced state of preparation for projects during 2014–2016. ADF-13 resources will thus need to be leveraged to mobilize significant additional capital. Management is developing an African Infrastructure Financing Facility to finance large transformational infrastructure projects to link the continent. The current total ADF-13 indicative pipeline has 205 national and multinational projects valued at UA 7.6 billion, and the pipeline will grow as operations are programmed for the later years of the ADF-13 cycle.

Three replenishment scenarios are presented for Deputies' consideration. A Low Case scenario results in a real decrease of 20% in total resources, assuming that donor contributions to ADF-13 remain the same as for ADF-12 in real terms. A Consolidation scenario assumes flat 0% real growth of total ADF resources, with an accompanying 29% real increase in donor contributions over the ADF-12 replenishment level. A Transformation scenario assumes 10% real growth in total resources, requiring a 43% real increase in donor contributions over the ADF-12 replenishment.

Deputies are invited to share their views and provide guidance on the ADF-13 Strategic and Operational Directions as laid out in this paper.

Table of Contents

Abbreviations	iv
1. Introduction	1
2. African Low-Income Countries and the ADF's Role	1
<i>"A unique proposition" – the African Development Bank Group</i>	<i>1</i>
<i>Africa has made substantial progress in achieving development results</i>	<i>3</i>
<i>The ADF has helped Africa achieve these results</i>	<i>4</i>
<i>Significant challenges remain, especially in poor countries and fragile states</i>	<i>7</i>
<i>The ADF is best placed to help countries address these issues</i>	<i>8</i>
3. Development Financing Needs of African Countries	10
4. ADF-13 Strategic and Operational Priorities	11
<i>Implementing the ADF-13 core operational priorities</i>	<i>12</i>
<i>Implementing the areas of special emphasis</i>	<i>14</i>
<i>A strong ADF-13 will help leverage additional resources</i>	<i>16</i>
5. Institutional Resilience and Effectiveness	16
6. ADF-13 Indicative Financial Scenarios	18
7. Conclusion—The ADF-13 Mission	19
Annex I: The ADF and Inclusive Growth	20
Annex II: The ADF and the Gradual Transition to Greener Growth	21
Annex III: Results Measurement Framework for Inclusive and Transition to Green Growth	22
Annex IV: Partnerships for Inclusive Growth and the Transition to Green Growth	23
 Boxes	
Box 1: Reducing time from farm to market from a week—to a day.....	5
Box 2: Quintupling trade between Ethiopia and Kenya	6
Box 3: : Automating customs for 85% of Liberia's imports	7
Box 4: Developing electronically enhanced teaching and learning programs.....	7
Box 5: The preferred partner? A client assessment of the African Development Bank	9
Box 6: Call for special support for the ADF from regional member countries	10
Box 7: ADF Burundi demand analysis.....	11
 Figures	
Figure 1: ADF country classifications	2
Figure 2: Africa as the new emerging market.....	3
Figure 3: Evolution of ADF replenishments	5
Figure 4: Indicative ADF-13 pipeline by sector.....	12
Figure 5: The ADF-13 financing envelopes and instruments as of December 2012	15
Figure 6: Bank Group Decentralization 2012: closer to its clients.....	17
 Tables	
Table 1: ADF-13 financing scenarios	19

Abbreviations

ACC	Advanced Commitment Capacity
ADB	African Development Bank
ADF	African Development Fund
ADF-12	Twelfth General Replenishment of the African Development Fund
ADF-13	Thirteenth General Replenishment of the African Development Fund
CO ₂	Carbon dioxide
CSP	Country Strategy Papers
EAC	East African Community
FSF	Fragile States Facility
GDP	Gross domestic product
ICT	Information and communication technology
ILO	International Labour Organization
IT	Information technology
LIONS	Liberalizing Innovation Opportunity Nations
LTS	Long Term Strategy
MDB	Multilateral development bank
MDG	Millennium Development Goal
PIDA	Programme for Infrastructure Development in Africa
PBA	Performance-Based Allocation
PBO	Policy-Based Operation
RAP	Recruitment Action Plan
Rio+20	United Nations Conference on Sustainable Development in Rio
RISP	Regional Integration Strategy Papers
RMF	Results Measurement Framework
UA	Unit of Account
UNECA	UN Economic Commission for Africa
WWF	World Wildlife Fund

1. Introduction

- 1.1. The rapidly evolving global context is creating new opportunities and challenges for Africa. The last decade has witnessed exceptional dynamism in some ADF economies. The emergence of new global economic centers has enabled Africa to take a seat at the table of world economics and new strategic alliances.
- 1.2. The shift of global economic growth to developing and emerging markets gives ADF countries the opportunity to become crucibles of growth for the world economy. More businesses are coming into Africa, and more foreign investors are establishing companies. The African continent, long a supplier of resources, is now also a consumer.
- 1.3. The African Development Fund (ADF or Fund) continues to be a stable and responsive channel of financing for its 40 eligible countries.¹ In the last five years it has been called upon to make countercyclical responses to minimize the impact of the global meltdown on African economies. It is also innovating to become the premier channel of concessional financing for low-income countries in Africa.
- 1.4. Based on client assessments and stakeholder views, the Bank Group is emerging as the preferred partner in Africa. It serves as a catalyst, convener and connector. It is a knowledge broker and a trusted adviser. And it is a voice for development in Africa. Africa's vision is to become the next emerging market—stable, inclusive and green, as well as integrated, competitive and diversified.
- 1.5. This paper lays out the operational directions of ADF-13 and the intended financing of transformational projects in Sub-Saharan Africa. It is complemented by five discussion papers: “Review of the Bank Group Engagement with Fragile States,” “Options for a More Robust PBA System,” “The ADF-13 Financing Framework,” “Long-term Financial Capacity of the ADF” and “Accelerating Progress on Gender during ADF-13.”

2. African Low-Income Countries and the ADF's Role

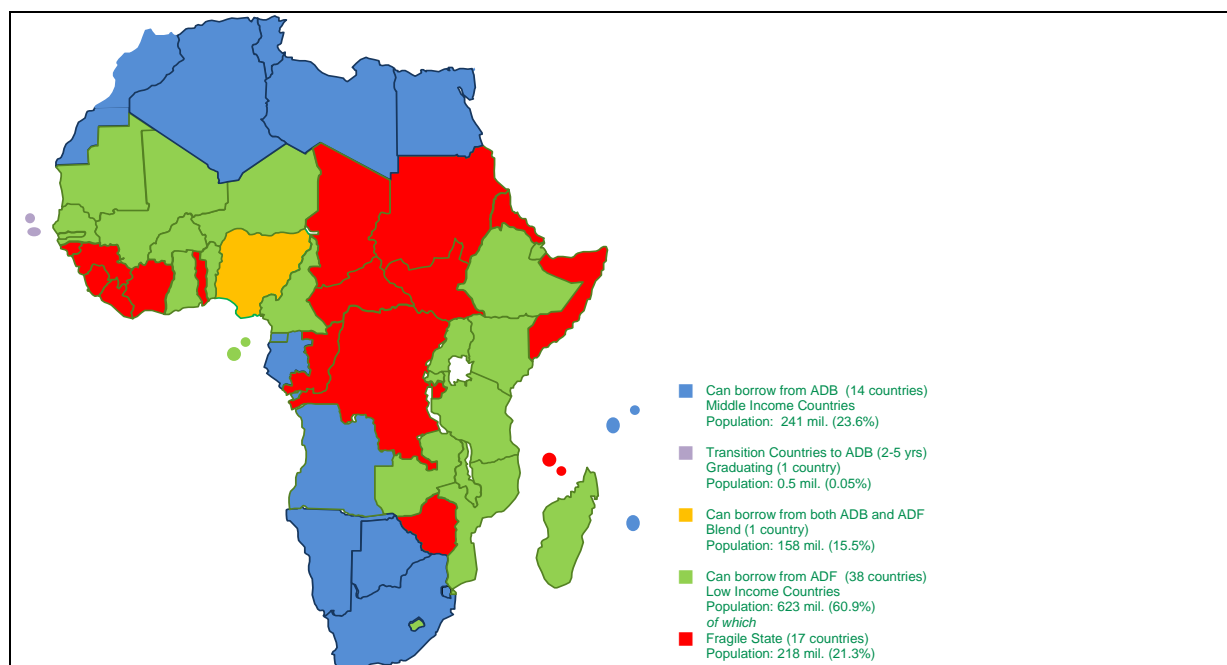
“A unique proposition” – the African Development Bank Group

- 2.1. A year short of its 50th anniversary in 2014, the African Development Bank today mirrors the imagination of its founders when they first conceived it in Monrovia in June 1962: it is an African organization, serving Africans. To its uniquely African character it adds the wherewithal, political will and experience of its 24 non-African member countries, who have chosen – through the channel of the Bank, and specifically of the African Development Fund – to advance the shared vision of a peaceful, prospering Africa.
- 2.2. For Africans and non-Africans alike, the Bank's legitimacy lies in its African character, and its central place in the African architecture. With an African president and a largely African staff drawing on the best of African skills and experience, with universal African membership and an exclusive focus on African development, and with a strong presence across the continent, the Bank is set to be a motor for economic progress and integration, and the voice of Africa and African development across - and far beyond - the Continent. The Bank is well on the way to increasing its development effectiveness through increased decentralization to Field Offices, strategically focused areas of engagement, and a strong balance sheet with high risk-bearing capacity. All this has contributed to it consistently maintaining its AAA rating. Its status is globally acknowledged.

¹ Of the 54 African countries, 40 are ADF-eligible, with 1 blend and 1 transition country. Thirty-eight are low-income countries or lower middle-income countries, 19 of which are fragile states, according to the Bank's classification.

- 2.3. Tried and tested over half a century, and with a cumulative investment in Africa in excess of \$100 billion (*ADF*, 40%), the Bank is already the clear partner of choice for African governments – a fact revealed by an independent research survey (the first ever commissioned by a multilateral development bank) carried out in 2012 by Development Finance International and the University of Oxford. Its task now is to become the partner of choice for the rest of Africa, and for the wider world, including its own non-regional members. The research – done extensively and intensively across all 54 of its regional member countries – showed clearly that respondents were actively willing it to take its rightful place. As Mozambiquan President Joaquim Chissano and Canadian Prime Minister Paul Martin had earlier written in their 2007 independent ‘High Level Panel’ review of the Bank: ‘The African Development Bank itself can have only one goal – to be the premier development institution in Africa’.
- 2.4. In January 2013, the Multilateral Organisation Performance Assessment Network, MOPAN, ranked the Bank as exceptionally strong in aspects of its strategic and operational management, and good in almost all others. Recent reviews by the UK and Australian Governments have said the same – commending the clear concentration and focus of its 2008-2012 strategy, and praising the breadth and depth of its new evaluation and quality assessment operations, and in particular the new *Annual Development Effectiveness Review*.
- 2.5. All third party observers point out the imperative of continued Bank improvement, especially in the recruitment and retention of its staff, in its alignment with the Paris and Accra Principles which define good aid, and in the way it links its achievements to the wider quest of reducing poverty in Africa and meeting the Millennium Development Goals. Each, however, acknowledges that the Bank can easily point to the results of its work – not just in the thousands of kilometers of roads or electric cable laid, for instance, or of hectares of land brought into agricultural use, but above all in the millions of lives, and livelihoods, thereby bettered. The Bank’s ultimate aim is to serve the people of Africa, and improve their lives.
- 2.6. The Bank Group enjoys major comparative advantage in being the only genuinely African development finance institution with privileged access in its regional member countries beyond that of other donors. This allows it to play critical, often sensitive roles – engaging in frank dialogue in the 19 African states which are ‘fragile’ or affected by conflict, for instance, and in tackling corruption and improving accountability. The Bank’s Fragile States Facility is unique in providing individually tailored support to diverse needs. From Liberia to Cote d’Ivoire, to Zimbabwe to Sudan and South Sudan, it has acted in response to countries’ economic, political, and social circumstances, and built trust around dialogue, local ownership, and the celebration of success. Praised by the UK’s Overseas Development Institute, this is the uniquely African experience and perspective of the Bank in its support for its most vulnerable members.

Figure 1: ADF country classifications



2.7. The Bank has become both a channel and a focal point for African resilience, as adept at dealing with the shocks faced by its members, as with supporting their long-term, managed growth. As global financial and economic turmoil spread to Africa in 2008-9, it raised its lending by a full quarter – through enhanced budget support, and by introducing new instruments. It has funded numerous emergency and humanitarian operations in recent years, not least in North Africa in the wake of the Arab Spring. And increasingly, the continent and the world see the centrality of its counsel, as much as its funding. The 2012 research further revealed the wide yearning for a real African ‘policy bank’ and voice. In its new global advocacy role towards the G20, and in articulating an African agenda on the continent’s gradual transition towards a ‘Green economy’, the Bank has given - and continues to give - that lead. Looking forward, it foresees an ever-growing role in unlocking private sector funding and other, non-traditional, sources of development finance. As catalyst, convener, connector – and as a source of innovation and best practice across the continent – its partnerships in Africa and beyond are the key to its position of trust, as the partner of choice for governments and people alike.

Africa has made substantial progress in achieving development results

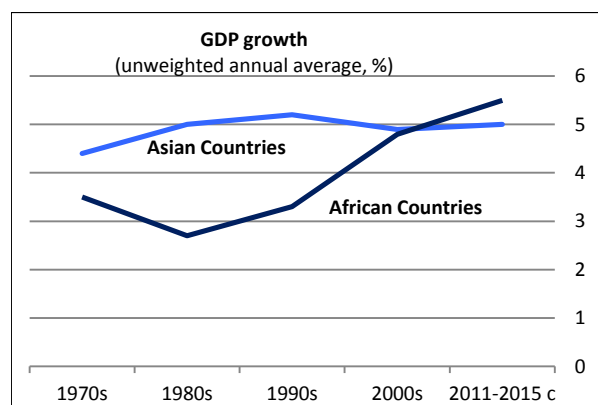
2.8. The past decade of unparalleled growth and stability has energized Africa, including some ADF countries. Between 2000 and 2010, 6 of the world’s 10 fastest growing economies were ADF countries, with average growth of more than 5% (figure 2) helping to push up the overall performance of the continent. Growth is expected to remain strong, with predictions that 7 of the 10 fastest growing economies over the next five years will be ADF countries. Sub-Saharan Africa thus has an unprecedented opportunity for sustained growth and transformation.

Figure 2: Africa as the new emerging market^a

World’s 10 fastest growing economies^b

(annual average GDP growth, %)

2001–2010 ^c		2011–2015 ^d	
Angola	11.1	China	9.5
China	10.5	India	8.2
Myanmar	10.3	Ethiopia	8.1
Nigeria	8.9	Mozambique	7.7
Ethiopia	8.4	Tanzania	7.2
Kazakhstan	8.2	Vietnam	7.2
Chad	7.9	Congo	7.0
Mozambique	7.9	Ghana	7.0
Cambodia	7.7	Zambia	6.9
Rwanda	7.6	Nigeria	6.8



a. *The Economist*, January 6, 2011.

b. Excluding countries with fewer than 10 million people.

c. 2010 estimate.

d. Forecast.

2.9. The ADF has been a constant presence and partner. The average GDP per capita of ADF countries reached USD442 in 2011.² Since 2005 the proportion of ADF countries’ population living on less than USD1.25 a day fell from 51% to 43% in 2011. Trade volumes between ADF countries reached USD68.7 billion, while their share of global trade climbed to 1.5%.³ Of 48 Sub-Saharan countries, 36 improved their business regulations. The average cost of starting a business fell from USD218 in 2005 to USD93 in 2011, and the average time from 58 days to 32. Access to fixed and mobile phones subscriptions in ADF countries rose from 86 people per

² 2012 ADB Annual Development Effectiveness Review (ADER).

³ ADB. 2012 Development Effectiveness Review (DER) Promoting Regional Integration.

1,000 to 415 in 2011, and internet use from 19 people per 1,000 to 99.

- 2.10. The ADF countries have substantially improved governance in several areas,⁴ and 17 democratic presidential and general elections were held in 2011. ADF countries managed a slight improvement in Transparency International's Corruption Perceptions Index, from 2.5 points of 10 in 2005 to 2.7 in 2010–2011. And the Mo Ibrahim Index shows substantial improvement in the provision of health, education and social safety nets, up 5 percentage points since 2005.
- 2.11. Of the 19 fragile African states, home to more than 200 million people, 17 eligible for the ADF,⁵ average per capita incomes rose from USD300 in 2005 to USD333 in 2011, and the proportion of people living on less than USD1.25 a day fell from 56% in 2005 to 53%. On the World Economic Forum's Global Competitiveness Index, which ranks countries on a scale of 1–7, Africa's fragile states progressed faster than the rest of the continent, with an average ranking of 3.1 in 2011, up from 2.7 in 2006.
- 2.12. Africa remains a fragmented continent with 28 countries having GDP under USD10 billion, 26 with population of less than 10 million and 16 landlocked countries. But regional integration is now driving structural transformation in Africa. The regional economic communities have made real progress in harmonising national regulations on the movement of goods, services, labour and capital. And there is a clear recognition among African policy makers that regional integration is a prerequisite for robust and equitable growth.⁶

The ADF has helped Africa achieve these results

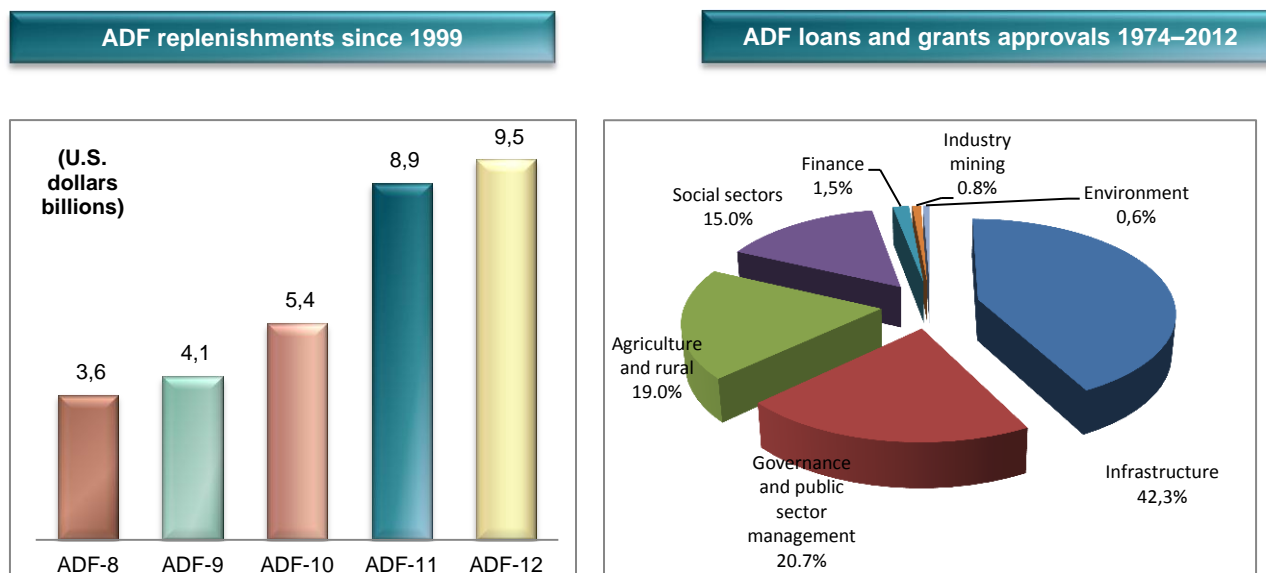
- 2.13. The ADF-13 cycle marks 40 years since the Fund's establishment. The ADF was signed in November 1972 and became operational in 1974. ADF lending for infrastructure has improved connectivity for marginalized areas and addressed rural-urban imbalances. The Fund has also supported rural markets, built storage facilities and processing plants, and improved water and land management. It has used a range of innovative financial instruments to catalyse commercial investments in infrastructure and industry. The Fragile States Facility has promoted job creation by creating opportunities for small business and increasing access to microfinance. And the ADF has helped restore basic services to deliver early results.
- 2.14. Supported by its donors, the evolution of the ADF has been dynamic, particularly in the past 15 years (figure 3). Cumulative replenishments since 1974 stand at UA 32.50 billion; cumulative available resources (excluding the technical gap) amount to UA 29.58 billion.
- 2.15. Cumulative approvals of loans and grants over 1974–2012 (October) totaled UA 25.7 billion for 2,440 operations, with disbursements of UA 16.1 billion. Infrastructure was the largest sector for investment, with 42.3% of approvals (box 1), followed by governance and public sector management at 20.7%, agriculture and rural development at 19.0% and social sectors at 15.0%.

⁴ ADB. 2012 *Development Effectiveness Review (DER) on Governance*.

⁵ ADB. 2012 *Development Effectiveness Review (DER) on Fragile and Conflict-Affected States*.

⁶ ADB. 2012 *Development Effectiveness Review (DER) Promoting Regional Integration*.

Figure 3: Evolution of ADF replenishments



Note: Figures for 2012 are through October. Social sectors include education, health, population, gender equity and poverty alleviation.

Source: Economic and Social Statistics Division, Statistics Department of African Development Bank.

Box 1: Reducing time from farm to market from a week—to a day

The infrastructure financed by the Fund is in many ways a means to an end rather than an end in itself. The Fishtown-Harper Road financed in Liberia improved food security, with time from farm to market reduced from one week to one day. It created employment with equal pay for 2,500 workers, including women. It added to security and youth employment. And it contributed to regional integration through trade with neighbouring Côte d'Ivoire.

BEFORE



AFTER



- 2.16. Since 2006 the ADF helped 7.6 million people benefit from access to modern energy services, and 12.5 million from improved access to water and sanitation. In East and Southern Africa, the high-speed communication cables co-funded by the Bank Group have 250 million potential beneficiaries. The Fund is a leading financier of regional projects to promote regional economic integration, and more than 30% of lending goes toward regional infrastructure to improve connectivity for marginal areas and address rural-urban imbalances (box 2).

Box 2: Quintupling trade between Ethiopia and Kenya

One example of the Fund's financing of transformational projects is the Mombasa-Nairobi-Addis Ababa Road Corridor, in which the ADF invested UA 475 million spanning three ADF cycles from ADF-10 to ADF-12.

Ethiopia and Kenya, sharing more than 1,000 kilometres of common border, have a combined population of more than 120 million people. Yet the two countries did not have an uninterrupted paved road connecting them. The main road from Addis Ababa to Nairobi had more than 1,000 kilometres of missing links, and the poor road conditions constrained trade and travel between the two countries. In 2004 the Bank Group advised the two governments to develop the road linking Addis Ababa to Nairobi and Mombasa into a major trade corridor to integrate not only the economies of Ethiopia and Kenya but the whole Horn of Africa and East Africa sub-regions, unleashing the potential for trade between the two sub-regions.

During the three phases of the program, during ADF-10, ADF-11 and ADF-12, the Fund contributed to the construction of more than 1,000 kilometres of motorways, the expansion of Mombasa port facilities, construction of road stations and one-stop border post facilities, the signing of a bilateral transit transport agreement, and a transport facilitation program.

Trade between Ethiopia and Kenya is expected to grow from the current USD60 million to more than USD300 million in the first three years after the completion of the civil works planned for 2014. Ethiopian imports and exports transiting through the port of Mombasa are expected to reach more than 1 million tons a year by 2017, up from virtually zero today. Transportation and logistics costs between Addis Ababa and Nairobi are estimated to be reduced 20%, from USD0.40 per vehicle kilometre in 2011 to USD0.32 per vehicle kilometre in 2016, while transit and travel time is expected to be reduced by a third, from 30 hours in 2010 to 20 hours in 2015.

- 2.17. The Fund's combination of financial support, policy dialogue and technical assistance is making a substantial contribution. Across the 14 countries where the Fund invested in revenue systems, tax revenue rose from 10.5% of GDP in 2005 to 14.7% in 2011, while tax rates for business came down from 93.6% of commercial profits to 53.9%. The Fund also supported the Extractive Industries Transparency Initiative candidacy of 11 ADF countries to help them increase the transparency of revenues flows between extractive industries and the government.
- 2.18. To counter the volatile aid flows to fragile states, donors supported a Fragile States Facility (FSF) within the ADF—a fast and flexible mechanism to channel additional resources to help fragile states consolidate peace and stabilize their economies. The FSF helped restore basic services through quick-disbursing projects. And FSF operations have promoted job creation by creating opportunities for small business and increasing access to microfinance, reaching 115,000 people in the past three years. Through the FSF, regional operations and Performance-Based Allocations, the Fund has provided around USD2.5 billion to fragile states and approved 124 operations.
- 2.19. The Fund has dramatically increased its support to promoting clean energy development. The hydropower projects in Ethiopia and Cameroon and the geothermal energy project in Kenya provide clean energy to hundreds of communities. The Itzhi Tezhi hydropower project in Zambia will generate 120 megawatts of clean energy by 2016, providing access for around 300,000 people and more reliable power for the industrial sector.

Box 3: : Automating customs for 85% of Liberia's imports

Under the Liberia Economic Governance and Competitiveness Support Program, a Policy-Based Operation (PBO) of UA 30 million was approved to strengthen public financial management and improve the environment for private sector development. With ADF support an automated system for customs data has been implemented at the Freeport of Monrovia (which accounts for 85% of all imports into the country) and four additional customs points including the Roberts International Airport. Customs clearance time has since come down significantly.



- 2.20. Clients want the Bank to have additional resources to continue the delivery of results, for low-income countries. African stakeholders have expressed a strong desire for an increase in the Fund's resources and asked it to maximize concessionality for low-income countries and provide needs-based allocations to fragile states.⁷

Box 4: Developing electronically enhanced teaching and learning programs

The African Virtual University Project has been financed by the ADF under cycles 10 (Phase I) and 12 (Phase II) for a total of UA 14 million. The project implanted 10 e-learning centers to develop electronically enhanced teaching and learning programs. It trained 133 staff in e-education methodologies, 146 staff in writing e-format materials and 60 staff in delivering and managing e-education programs. The project's immediate beneficiaries are 10 universities across the continent.



Increasing access to quality higher education and training through innovative use of information communication technologies

Significant challenges remain, especially in poor countries and fragile states

- 2.21. The ADF-13 replenishment comes at a decisive time. Africa has the opportunity to break the cycle of fragility, but fragile situations can develop unexpectedly, as in Mali and in the Horn of Africa. Even stable economies can become fragile due to a single internal or external shock. No other region in the world has to face the same conditions of fragility, which brings special development needs. Inequality on the continent is high: 6 of the world's 10 most unequal countries are in Africa.

⁷ The Preferred Partner? A Client Assessment of the African Development Bank.

- 2.22. The ADF's 17 fragile states continue to rank at the bottom quintile of the 2011 Human Development Index and lag 40%–60% behind other low- and middle-income countries in achieving the Millennium Development Goals. Not a single low-income country coping with fragility and conflict has achieved a Millennium Development Goal. And in the last two years more than 25 million people in the Sahel and Horn of Africa have been hit by food insecurity, malnutrition and pockets of famine, with women and children affected disproportionately.
- 2.23. Strong progress was recorded toward reaching some MDGs, but Africa still lags behind other continents on all the goals. The 2011 Africa MDG report observes daunting disparities in progress on all MDG indicators for Africa, with improvements skewed toward higher income groups and urban populations.⁸ Inequalities in access to education, health, water and sanitation have further marginalized excluded groups. So, the post-2015 MDG agenda will be increasingly African. The formulation of new Sustainable Development Goals could evolve into an international aid architecture based on pro-poor growth with equity.

The ADF is best placed to help countries address these issues

- 2.24. The ADF has special value added in Africa. Under the guidance of its donors, it adopted selectivity and focus in its operations.
- The Bank Group is majority African-owned, with 60% of the shareholdings held by the regional member countries. It is unique in having a singular focus on Africa and drawing on African experience and skills through staff.
 - The Bank Group's African legitimacy—as the only genuinely African development finance institution with access in regional member countries beyond that of other donors—is the Bank's comparative advantage. This enables the Bank Group to play pivotal roles in critical areas where other donors lack reach—in fragile states, in tackling corruption and in improving accountability.
 - The Bank Group has a specific comparative advantage in providing critical predictable financing for state-building in fragile states—as in Liberia and in Côte d'Ivoire—thanks to its legitimacy in Africa, its multilateral ownership and its experience and relationships developed in all of Africa's fragile states. The ADF's FSF offers a unique structure to provide differentiated support to the diverse needs of fragile states.
 - An increasingly decentralized staff will have delegated authority to improve the country specificity of operations and respond to client needs in a timely manner. A broadened toolkit will ensure flexibility and responsiveness in the face of shocks.
- 2.25. The 2007 High Level Panel Report, Investing in Africa's Future: The ADB in the 21st Century, marked a strategic shift in the Bank Group's institutional architecture. It laid out the vision that the Bank Group can and must become the premier development institution in Africa, providing a voice for and within Africa. With an elected African president, strong balance sheet, and representation in all African countries, the Bank Group is well positioned to do this. The Report recommended four interlocking areas of focus for growth and economic integration: investing in infrastructure, building capable states, promoting the private sector and developing skills.

⁸ ADB and others 2011.

Box 5: The preferred partner? A client assessment of the African Development Bank

In 2012 the Bank Group became the first multilateral development bank to commission a detailed assessment by its regional stakeholders. The Preferred Partner? A Client Assessment of the African Development Bank, by Matthew Martin of Development Finance International and Ngaire Woods of the Global Economic Governance Program at University College, is the outcome of more than 80 structured interviews with senior leaders, web-based surveys to gather views from 137 stakeholders and two regional workshops to gather feedback on Bank policies and procedures and make consensus proposals for improvement.

The client assessment endorsed the Bank's Medium Term Strategy with overwhelming support, with three of its four pillars (infrastructure, the private sector and higher education, science and technology) reflecting key African priorities, and giving it a role distinct from other donors. Stakeholders felt that the Bank Group should be more flexible in post-conflict countries to restore underfunded essential services and accelerate delivery in all fragile states.

Regional stakeholders expressed a desire for an African "policy Bank" and urged the Bank Group to be a key source of timely African policy advice. In response the Bank Group stepped up its representation as the voice for Africa in international fora such as the G20 and in climate change discussions. It played a leadership role on inclusive growth at the 2012 Africa Economic Conference in Kigali and on green growth at Rio+20. And it took on special responsibility following the Arab Spring, hosting the Secretariat of the Deauville Partnership and coordinating donor contributions to stability and job creation.

- 2.26. **Differentiated country approach.** The Bank has demonstrated that it is responsive: both to regional member countries in putting country ownership first, and to donors in implementing major internal reforms. ADF-13 proposes responses to meet the needs of countries that are stronger and have access to different types of resources by promoting leverage through innovative financial instruments and by providing advisory support. For the most fragile ADF countries it will support improvements in Performance-Based Allocations (PBA) because they depend much more on aid. Countries receiving the lowest ADF allocations (PBA + FSF Pillar I) in 2012 also received the least official development assistance from other sources. In three of these countries the ADF provided more than 20% of official development assistance. Management's proposals for improving the PBA are outlined in the paper "Options for a More Robust PBA."
- 2.27. For the stronger ADF countries access to financial markets is increasing, but they still receive a high share of official development assistance relative to the rest of the ADF countries. Of the seven top receivers of official development assistance among ADF countries with moderate or low risk of debt distress in 2010, five with higher gross national incomes per capita registered substantial access to financial markets. For this group of countries the paper on the "Long-Term Financial Capacity of the ADF" proposes better leveraging of the Fund's resources through guarantees, blend financing and matching funds.
- 2.28. The Fund's support for fragile states will be tailored and aligned with client country state-building and peace-building, as specified in the *New Deal for Engaging in Fragile States* (2012).⁹ The Bank Group now has a more nuanced and deliberate strategic leadership role in fragile states, which pose unique or complex political challenges that cannot be well addressed through traditional instruments or approaches. For instance, the Bank Group's leadership facilitated more proactive donor engagement in Zimbabwe (supported by the Multi-donor Zim-Fund), a unique contribution to peace-building in Sudan and South Sudan (by technical and advisory support to the African Union High Level Panel on Sudan) and a speedy response to turnaround situations, as in Côte d'Ivoire in 2011.

⁹ The New Deal was endorsed by the Busan Fourth High Level Forum on Aid Effectiveness (HLF-4) in 2012.

3. Development Financing Needs of African Countries

- 3.1. Africa's infrastructure gap remains at more than USD100 billion a year. The Programme for Infrastructure Development in Africa has estimated a total demand of USD360 billion for regional projects until 2040, with a Priority Action Plan targeting USD68 billion, or about USD7.5 billion a year, for the period to 2020. Additional investment needs for information and communication technology (ICT), capacity building and institutional strengthening are estimated at about USD3 billion a year, bringing the total investment requirement for regional integration initiatives to about USD10 billion a year.

Box 6: Call for special support for the ADF from regional member countries

At an African Union Conference in November 2012, African energy ministers called on donors to make financial commitments for implementing the Programme for Infrastructure Development in Africa's Priority Action Plan and to achieve a significant replenishment of the African Development Fund in its 13th cycle, as the main funding window for most African countries for infrastructure.

In Nairobi on November 29, 2012, East African Community (EAC) Heads of State called on the donor community to scale up contributions to ADF-13 and to the New Partnership for Africa's Development's Infrastructure Project Preparation Facility (hosted by the Bank Group). In turn, these facilities are called upon to contribute to financing the preparation and implementation of EAC priority projects and to mobilize additional co-financing.

- 3.2. The Organisation for Economic Co-operation and Development estimates that Sub-Saharan Africa will require financing of USD90.2 billion to attain the Millennium Development Goals by 2015—USD72 billion to reach Goal 1 on reducing poverty, USD16.4 billion to reach health-related Goals (4, 5 and 6) and USD1.8 billion to reach the education-related Goals (2 and 3).
- 3.3. To mitigate the effects of climate change, the 2007 Stern Review on the Economics of Climate Change suggests that an upper bound for the expected annual cost of emissions reductions consistent with a trajectory leading to stabilization at 550ppm CO₂e is likely to be around 1% of GDP by 2050. Six assessments of global adaptation costs published over 2006–2008 and reported in the Commission on Climate Change and Development's 2009 report titled *Closing the Gaps: Disaster risk reduction and adaptation to climate change in developing countries* show that climate change adaptation costs would range from USD3 billion to USD135 billion a year. In an United Nations Framework Convention on Climate Change paper of 2008, estimates have also been broken down to differentiate between short-term (2010) and medium-term costs (2030). The short-term costs—to cover better information technology and early warning systems and establish global and regional response schemes like extreme weather insurance programs—are estimated at between USD6 billion and USD11 billion a year. Medium-term costs—to cover further investments in global public goods and in global and regional response schemes—are estimated between USD12 billion and USD29 billion a year. Taking the lower limits of the two, investment requirement for both short-term and medium term measures will require a total of USD18 billion a year.
- 3.4. Regional member countries need to raise gross domestic investment to at least 35% of GDP annually—two-thirds of it private. This means private sector investment equivalent to 25% of GDP will be needed to meet the private sector development needs. Assuming average annual growth of 6% for Africa, the private sector development needs would be USD285.7 billion in 2014, USD300 billion in 2015 and USD318.8 billion in 2016.

Box 7: ADF Burundi demand analysis

Burundi's recurring conflict over the last 20 years largely destroyed infrastructure assets, especially the country's energy generation, transmission and distribution systems. The country's installed electricity generation capacity is very limited (50 megawatts in 2011), and the national electricity access rate is among the lowest in the East African Community (about 3% in 2012). As 90% of electricity is generated through domestic or regional hydropower resources, vulnerability to droughts limits the energy supply during the dry season. Major energy supply crises affected Burundi during the 2009, 2010 and 2011 dry seasons, resulting in severe electricity shortages for all basic services and households in Bujumbura.

Burundi has six priority development goals in its second Strategic Framework for Growth and Poverty Reduction, requiring up to USD1 billion. Covering 2012–2015 its plan focuses on population control, agricultural development, public spending reforms, private sector engagement, energy sector development and institutional development. These priorities are designed to meet challenges such as food insecurity, malnutrition and high energy demand. Burundi aims to generate at least 48% of the USD1 billion needed to finance the plan. And as a small country in Sub-Saharan Africa it will receive UA 30.47 million from its three-year indicative PBA allocation of ADF-12 and UA 57.23 million from the Fragile States Facility Pillar I.

The ADF was the first development partner to invest in electrification in post-conflict Burundi, with a 30 Kv network in Bujumbura, reducing energy losses and providing access to modern energy services by electrifying 1,789 households with more than 9,000 individuals.

The ADB Bank Group funded a study with the government of Burundi which led to the flagship infrastructure report, 'An Infrastructure Action Plan for Burundi - Accelerating Regional Integration' which is being used by the government and donors.

4. ADF-13 Strategic and Operational Priorities

- 4.1. Guiding the ADF-13's mandate in 2014–2016 is the Bank Group's new Long Term Strategy for the next decade 2013–2022, articulating how it plans to selectively support the continent's development. The goal of the Long Term Strategy is for the Bank Group to be at the center of Africa's transformation in the next decade by pursuing the twin strategic objectives of promoting inclusive growth and gradual transitioning to green growth.
- 4.2. Inclusive growth means providing more economic opportunities and economic diversification in ADF countries across age, gender, ethnicity and geography. The ADF will invest in infrastructure that unlocks the growth and development potential of the private sector and enhances community participation. The Fund will help improve skills for competitiveness and ensure that those skills better match the opportunities and requirements of local job markets. And it will significantly scale up engagement with fragile and vulnerable states, helping build capacity, create employment opportunities and provide basic infrastructure (annex I).
- 4.3. The Fund will be part of the gradual transition of ADF countries to greener growth by increasing the capacity of African economies to reach their development objectives more efficiently by identifying development pathways that reduce the pressure on natural assets and that better manage environmental and socioeconomic risks. Key green growth opportunities include building resilience to shocks, making efficient and sustainable use of natural resources and providing sustainable infrastructure (annex II).
- 4.4. In line with the new Long Term Strategy for 2013–2022, the ADF-13 core operational priorities will be:
 - Infrastructure.
 - Regional integration.
 - Private sector development.
 - Governance and accountability.
 - Skills and technology.

4.5. As Africa continues to grow, the real focus must be on the transformation agenda—on helping low-income countries become lower middle-income countries, then middle-income countries and finally emerging economies. To be a key player in transforming Africa, the ADF must be scaled up to deliver a program in line with the needs. Addressing the needs will require areas of special emphasis on fragile states, agriculture and food security, and gender, which will ensure that this transformation includes the vulnerable. The three areas of special emphasis will be:

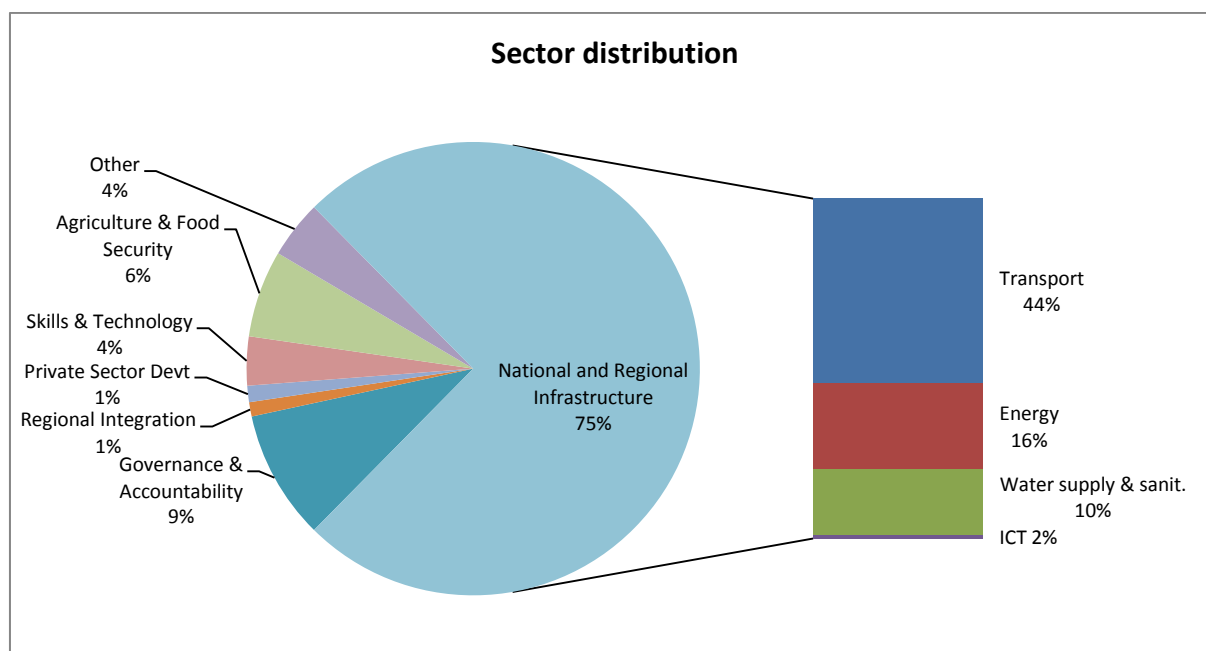
- Fragile states.
- Agriculture and food security.
- Gender.

Implementing the ADF-13 core operational priorities

4.6. The ADF-13 three-year period is particularly defining as it would be the first three years of the operationalization of the Long Term Strategy. The Bank intends to significantly ratchet up its support for fragile states and leverage ADF resources to finance inclusive infrastructure and private sector development, especially micro, small and medium enterprises.

4.7. The indicative ADF-13 pipeline as of December 2012 reflects ADF country-led priorities. Based on Country Strategy Papers, the needs of the ADF countries put the ADF-13 pipeline at of UA 7.6 billion, a 43% increase in financing from the ADF-12 pipeline of UA 5.3 billion. The pipeline includes UA 3.7 billion programmed for regional operations and UA 3.9 billion in national operations in 205 operations (figure 4.). The ADF-13 pipeline largely reflects the operations proposed for 2014. This pipeline will grow substantially as operations are programmed for 2015 and 2016.

Figure 4: Indicative ADF-13 pipeline by sector



4.8. **Infrastructure portfolio.** Under ADF-13 the Bank will consolidate and diversify its infrastructure portfolio to promote sustainable infrastructure in line with the Long Term Strategy, with continuing support to the sectors of transport, energy, water supply and sanitation, and ICT. The new energy policy and energy strategy will guide the Fund's operations in energy infrastructure with greener elements. The Bank aims to become the lead financier in supporting Africa's move to a lower carbon growth path in the energy sector while ensuring access to energy for all Africans.

- 4.9. A typical transformational infrastructure project under preparation is the Lake Victoria Water Transport Project, which aims to provide safe, efficient and affordable transport in the East Africa region. Under this project the ports of Mwanza, Kisumu and Port Bell will be rehabilitated and equipped with modern telecommunication and cargo handling equipment. One of the unique features of this project is that it benefits the poor and small businesses. It is also a perfect example of a regional integration project as the lake is shared by three (3) countries that is also climate friendly.
- 4.10. Other projects in the ADF 13 pipeline that will contribute to sustainable development include the Kinshasa–Ouessou–Bangui–Ndjamena Water Land Corridor, the Mpulungu–Bujumbura Corridor on Lake Tanganyika, the Shire–Zambezi Inland Waterway and the Abuja Mass Transit System.
- 4.11. **Regional operations.** A regional operations pipeline of UA 3.7 billion is prepared and ready for financing over 2014–2016. In 2013, a new Regional Integration Strategy will build on the achievements in regional integration and set the path for the next ADF cycles. The projects under the Programme for Infrastructure Development in Africa (PIDA)—agreed by the African Union, the New Partnership for Africa’s Development and the Bank Group—will be increasingly mainstreamed into Regional Integration Strategy Papers.
- 4.12. In ADF-13, promoting regional integration will support the inclusive growth agenda by providing the backbone infrastructure to accelerate private sector development and inclusive job creation. It will also put Africa on the path to sustainable growth by focusing on climate-sensitive interventions in rail and water transport (Brazzaville–Kinshasa Rail Road bridge, several fluvial, lake and maritime port projects, and Issaka–Kigali rail line). It will also reduce the reliance of cross-border energy trade on fossil fuel generation (ZIZABONA, Mali–Burkina Faso, Malawi–Mozambique interconnectors, among others)—and support medium- and large-scale hydrogeneration.
- 4.13. The Bank Group has the unique ability to undertake high-level dialogue to help unlock bottlenecks to the implementation and delivery of regional infrastructure projects. Under ADF-12 the Bank Group helped to resolve issues surrounding inter-country agreements on two bridge projects namely the Trans-Gambia Bridge and the Kazungula Bridge. The lessons will be applied to new projects under preparation such as the bridge across the two Congos (Congo Brazzaville and DRC).
- 4.14. Given the large financing needs, collaboration with partners in project preparation and co-financing will be enhanced particularly around major transformational projects. This includes projects such as the Inga Hydro Electric Project in the DRC. The preparation and financing needs of this project are beyond the scope of any single institution but the impact is potentially Africa-wide.
- 4.15. In the energy sector, some of the missing links in the regional power grid, such as the Zambia–Tanzania–Kenya Power Interconnector, will be completed under ADF-13. When it is completed, it will be traded between the Southern Africa Power Pool and the East African Power Pool through the recently approved Ethiopia–Kenya Interconnector, resulting in a larger vibrant market for energy trade across 26 countries.
- 4.16. ADF-13 will also focus on the “soft” side of regional integration, including the regulatory environment, cross-border cooperation and trade facilitation. Human and institutional capacity will be strengthened, with development of human development service delivery platforms alongside the infrastructure operations. Processes to simplify the regimes for small and medium enterprise trade will also increase export volumes and values.
- 4.17. **Private sector development operations.** The revised Private Sector Development Strategy for the Bank Group—still under development—has three pillars: supporting a business-enabling environment, strengthening socioeconomic infrastructure development and promoting enterprise development. The pillars derive from careful analysis of private sector development in Africa and the Bank’s vision for the continent in the Long Term Strategy. They also are aligned with the Bank Group’s comparative advantages and capacities, particularly in infrastructure and governance. And they are informed by the Bank’s previous engagements across the continent, and the revised operational policies and principles, summarized in the 2012 Private Sector Development Policy.

- 4.18. The Fund will also propose innovative financing instruments to be catalytic in creating more private and public-private partnership projects in low-income countries, especially the least developed and fragile states. Given the wide-ranging requirements of a transition to greener investments, the private sector will be critical in supplementing the Bank Group as the main channel of finance for transitioning to green growth on the African continent.
- 4.19. **Governance and accountability operations.** The governance agenda emphasizes building an effective, capable and accountable state that delivers basic services to the poor in a fair and inclusive manner, promotes transparency and accountability in the management of public resources and creates an environment for private sector development to facilitate job creation for women and youth. The focus will continue to be strengthening governance in public expenditure and service delivery. New initiatives will be designed to empower citizens to hold governments accountable for their performance.¹⁰
- 4.20. By virtue of its legitimacy as a regional institution, the Bank Group takes on the role of a trusted partner, with a high degree of political and social influence, which is different from the global international financial institutions. The Fund's comparative advantage and additionality is demonstrated in its engagement in the African Peer Review Mechanisms and other financial and economic governance initiatives led by Pan-African institutions—and in its ability to efficiently respond to countries in distress, through flexible governance instruments, such as crisis response budget support operations.
- 4.21. Across the continent there is a continuing need for enhanced transparency and accountability mechanisms that improve public participation in financial and economic governance. Recent social and political events across the continent show that, regardless of a country's economic development, engaging citizens in decision-making processes and addressing issues of corruption, transparency and accountability are crucial for stability. Going forward, the ADF-13 will finance economic and financial governance programs, including a pipeline of lending operations of UA 636 million, and additional lending and non-lending operations that will be programmed for 2014–2016.
- 4.22. **Skills and technology operations.** The importance of science, technology and skills was fully recognized in the 2007 High Level Panel (HLP) Report and reflected in the Medium-Term Strategy (MTS 2008-2010). The recent Human Capital Development Strategy further reinforces skills and technology as a core operational priority.^[1] The pipeline of lending and non-lending operations for 2014–2016 consists of about 24 projects (9 national and 15 regional) totaling UA 318 million and 20 programs of economic and sector work. To address youth unemployment and promote skills development and technology, these operations address higher education, technical and vocational education, matching training and labour market needs; research and technology, using ICTs to improve access and training delivery; entrepreneurship and employability of youth; appropriate reforms and curriculum development; regional centers of excellence and knowledge networks in science and technology; and leveraging the potential of the private sector through public-private partnerships.

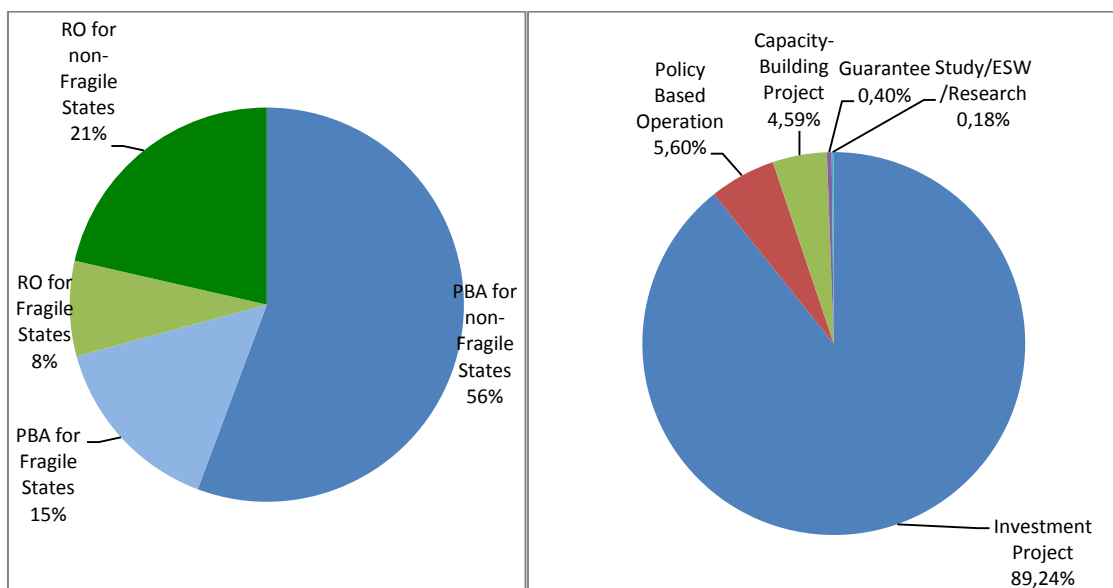
Implementing the areas of special emphasis

- 4.23. **Fragile states.** Focusing on fragile states is central to the inclusive growth agenda. The ADF-13 pipeline for operations in fragile states through the PBA and Regional Operations Envelope is approximately UA 2.0 billion as of December 2012 (figure 5). Pending Deputies' discussions on the future of the FSF, further projects stand ready to be programmed. The Bank Group will adopt a more robust framework for assessing fragility and introduce reforms ensuring that the operational approach to fragile states is more effective and efficient in addressing their daunting development challenges. Regional approaches and joint initiatives will achieve even greater synergies. Key priorities are building capacity for institutional development, generating employment, providing basic infrastructure and reducing insecurity.

¹⁰ The Framework for Enhanced Engagement with Civil Society Organizations was approved by the Board in October 2012.

^[1] For example, A Review and Assessment of Technical and Vocational Skills Development Policies and Practices in Africa. George AFETI and Ayele Lea ADUBRA. Draft Working Document. African Development Bank. September 2012.

Figure 5: The ADF-13 financing envelopes and instruments as of December 2012



- 4.24. The “Review of Bank Group Engagement in Fragile States” further elaborates achievements and progress in fragile states, including the role of decentralization, the unique development challenges and commensurate operational/resource needs and the ADF’s role in 2014–2016. Management will make proposals for adjusting to the approach at the second replenishment meeting.
- 4.25. **Agriculture and food security.** The Fund has been a key player in agriculture through its investments across the agricultural value chain in its areas of comparative advantages—agricultural infrastructure and renewable natural resource management—as means of improving productivity. Agriculture and rural development have cumulatively accounted for UA 4.9 billion in financing of 653 operations of the Fund’s portfolio since 1974. Going forward, the Fund will make additional investments to ensure food security by focusing on irrigation infrastructure; building and rehabilitating rural and community roads, markets and storage infrastructure; supporting agro-processing; and reducing postharvest losses. The Fund will also strengthen partnerships, complementarity and co-financing. The Bank will lend its support to building regional member country capacity for policy development, to help address leadership and policy gaps in agricultural development.
- 4.26. **Gender.** The Bank’s Long Term Strategy for 2013–2022 reaffirms its commitment to gender equality as essential for economic progress and sustainable development. The Bank will focus on mainstreaming gender in areas of operational advantage, following the priority areas of the LTS, particularly infrastructure, governance, skills and technology, regional integration and private sector development. Learning from past successes and failures, the Bank proposes to intensify efforts to reduce gender disparities by promoting women’s economic empowerment, strengthening women’s legal status and property rights, and improving knowledge management and capacity building.
- 4.27. The Bank Group is currently developing a Strategic Framework based on the LTS. The paper, “Accelerating Progress on Gender during ADF-13” assesses what the Bank did to address gender inequalities and outlines what the Bank will do in the future. It articulates the Bank’s vision for accelerating progress in promoting gender equality in Africa and elucidates the Bank’s approach in this area under the Thirteenth Replenishment of the African Development Fund (ADF-13).
- 4.28. Under ADF-13, three broad implementation modalities will be favored: finalizing the strategic framework to guide Bank’s activities in gender and development; making gender mainstreaming effective in all operations; and improving the monitoring and evaluation of gender operations. The Accelerating Progress on Gender during ADF-13 paper provides an overview of the way forward, outlining how the Bank intends to implement its gender strategic framework in the five core operational priority of the Long Term Strategy during the period of ADF-13. Based on

lessons from a review of gender mainstreaming strategies in the Bank and among other development actors, it deepens gender mainstreaming as a key strategy for promoting gender equality and women's empowerment across the full range of its operations—from country partnership strategies to the design and implementation of gender-inclusive projects and programs. In addition, the Bank will strengthen the tools and systems it uses to track support and performance on gender.

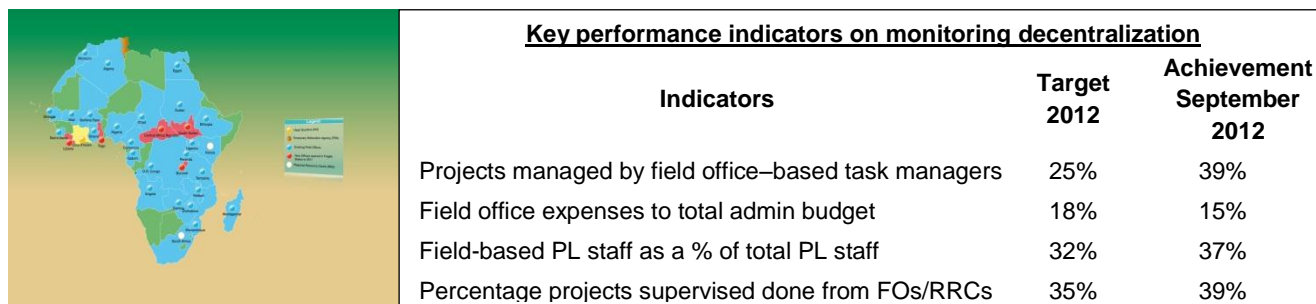
A strong ADF-13 will help leverage additional resources

- 4.29. ***Financing instruments.*** The ADF will use all the instruments at its disposal to pursue the ADF-13 operational priorities: investment loans and grants; policy-based operations; resources for project preparation, technical assistance, institutional support and capacity building; regional operations; partial risk guarantees; and sovereign equity participations in public-private partnerships (figure 5). The Fund is also exploring new mechanisms to address the continent's huge needs (the Long-Term Financial Capacity paper presents some options for ADF-13). Management will make systematic efforts to leverage scarce ADF resources by pursuing co-financing from trust funds, thematic facilities, other development partners, domestic resources and the private sector. For every investment operation, co-financing will be actively sought.
- 4.30. ***Innovative financing.*** Subject to Deputies' guidance, Management proposes to explore several options to increase the Fund's financing capacity through additional internally generated resources and to ensure that the available resources are allocated appropriately. Those options include differentiating financial terms among groups of ADF-only countries, accelerating repayment and voluntary prepayment of ADF loans for countries that have graduated and using innovative financing instruments to leverage ADF resources and enable the Bank Group to provide additional financing for private sector projects in low-income countries.
- 4.31. Bank Management is working on the structure for the African Infrastructure Financing Facility. The Bank Group has received commitments from African regional member countries to contribute up to 5% of African central bank reserves toward an Africa Infrastructure Bond within the African Infrastructure Financing Facility. Further details of the structure of this Facility will be available in 2013.

5. Institutional Resilience and Effectiveness

- 5.1. Franchise value as an effective African institution has improved significantly as a result of the sharper focus on results and the internal reforms implemented.
- 5.2. ***Moving closer to clients.*** Management believes that devolving staff and responsibilities to the field offices brings the Bank closer to its clients, leading to stronger relationships with partner countries and peers. The objective of decentralization is to improve the Bank's institutional effectiveness. As of September 2012 the Bank has a field presence in 34 countries, in addition to Tunisia and Côte d'Ivoire. Of these offices, 11 are in countries classified as fragile states. The Bank opened two Regional Resource Centers in January 2012 to operate on a pilot basis: the Eastern Africa Regional Resource Center in Nairobi, and the Southern Africa Regional Resource Center in Pretoria. Guinea Bissau and São Tomé and Príncipe have National Program Offices for a customized field presence, Mauritius has opened a liaison office in 2012.
- 5.3. Management is conscious that decentralization requires revamping organizational structures, lines of responsibilities and ways of doing things. The recently approved Delegation of Authority Matrix significantly increased the number of decisions and actions that can be taken in the field to increase overall effectiveness. To ensure that field offices can deliver in a more decentralized business model environment, Management has taken steps to decentralize fiduciary decision-making while retaining adequate safeguards. These measures require building the Bank's ICT capacity, which is crucial for effective operation. There is thus a need for a significant capital investment to modernize information technology (IT) systems for field offices.
- 5.4. To ensure that the objectives of decentralization are met, Management will continue to review the Bank's business processes, carry out a mid-term review of the Decentralization Roadmap in 2013 and evaluate the two pilot regional resource centers in 2014. As of September 2012 the Bank Group was delivering results above set target rates for key performance indicators on decentralization (figure 6).

Figure 6: Bank Group Decentralization 2012: closer to its clients



5.5. **Return to headquarters in Abidjan, Côte d'Ivoire.** The Bank Group is expected to return to its headquarters in Abidjan, Côte d'Ivoire, during the ADF-13 period. The return is expected to eliminate a longstanding cloud of institutional uncertainty. This process will be guided by a comprehensive Roadmap to be approved by the Board of Governors during the Annual Meetings in May 2013. The Roadmap has taken full consideration of the need to ensure business and operational continuity at all times, as well as lessons from the relocation from Abidjan to Tunis in 2003. A phased return is proposed, supported by continuous monitoring of the situation by the Bank's Security Unit, Senior Management and Board of Directors. The Roadmap also calls for a new data center to be built at headquarters for the smooth transitioning of IT systems. Implementation of the Roadmap will be supported by a comprehensive change management process, backed by the existing Business Continuity Plan, recently strengthened with backup sites in Rabat (Morocco) and Pretoria (South Africa).

5.6. **Improving corporate effectiveness.** The Bank Group is undertaking a range of corporate reforms to increase its institutional effectiveness. These go beyond the focus on staff vacancy rates to embrace the leadership and management culture of the bank; the effectiveness of its IT systems; its business continuity strategy; its risk management; and more.

On staff vacancies, in particular, Management is undertaking several steps to streamline the recruitment process. These include establishing a professional cadre of trained recruiters within the Bank Group to provide objectivity and efficiency in the interview process; reducing the number of steps in the process; reducing the numbers of staff involved at each stage of the process. Management is now looking at improvements to the on-boarding process to reduce delays between offer and arrival. These initiatives are expected to professionalize the process, reduce time and burden on existing staff and deliver efficiencies.

5.7. Through these initiatives, the vacancy rate is expected to drop to about 8% in early 2013. But it is expected to go up as the effects of the return to Abidjan begin to manifest, to possibly 10% in 2014, before beginning to go down again.

5.8. Other institutional effectiveness reforms in process or planned include:

- Establishing a senior level appointments board to ensure effective and transparent handling of all management level succession planning, appointments and transfers and to integrate these with talent management.
- Development of a People Strategy to drive a new culture of leadership and management across the bank with a strong focus on employee engagement
- Reform the HR system to deliver an agile professional service that responds to client needs and in the longer term provides for greater efficiencies in the delivery of HR services
- Automation of key functions to reduce time and costs of administration
- A new IT strategy the aims to ensure IT systems enable deliver in line with the LTS and Decentralisation Roadmap.

5.9. **Increasing participation and voice.** The Framework for Enhanced Engagement with Civil Society Organizations was approved by the Board in October 2012. The Bank Group conducted extensive consultations while enhancing its approach of participatory engagement. The framework will help make the Fund more transparent and accountable to the ADF countries, facilitating greater participation by civil society in corporate policy, country dialogue and project design and implementation. New mechanisms and policies are being developed and promoted

to better identify and integrate African citizens' aspirations. This will strengthen the voice of those it aims to assist—and provide more direct feedback on the impact it is making.

- 5.10. **Enhanced engagement through disclosure.** The Bank Group has continued its strengthening of platforms of engagement and accountability through its Policy for Disclosure and Access to Information, which will become effective in February 2013. The implementation of this policy promotes an open, transparent and consultative engagement with stakeholders, to ensure better knowledge, visibility and understanding of the Bank Group's activities, in particular the use of donor resources.
- 5.11. **Adopting a results-based approach.** The Bank's Results Measurement Framework will reflect the strategic priorities of the Long Term Strategy through specific indicators and disaggregated data (annex III). The various dimensions of the Framework will also ensure a focus on sustainable, resilient and resource efficient growth. For each main sector of operations the selection of indicators will be guided by their relevance to core priority areas, while ensuring that they remain efficient tools in managing for results. Quality processes will also guide the design of operations at entry to factor in inclusive growth and progressive transition to green growth.
- 5.12. **Strengthening project design.** The Independent Operations Evaluation Department (OPEV) conducts rigorous evaluations of the Bank Group's operations and strategies. A new Bank-wide consultative mechanism—The Roundtable Review Mechanism—has been piloted to strengthen the quality of follow-up to OPEV's evaluations. Each review brings together representatives from a range of relevant complexes and departments to discuss findings in detail and work together to ensure that Management can take appropriate action to translate findings into actionable improvements. The ADF-13 period will include evaluations of the energy sector, equity investments, responses to the food crisis, public-private partnerships and mainstreaming the private sector.
- 5.13. **Impact evaluation reference group.** The Bank Group is taking the lead to promote impact evaluation in order to help its regional member countries generate evidence on the impact of policies, thus improving the effectiveness of aid and public spending. An important element will be the extent to which such policies produce shared opportunities and inclusive growth. Since 2012, three Higher Education, Science and Technology projects have been identified for impact evaluations in Uganda, Malawi and Kenya. During ADF-13 impact evaluations will be encouraged for inclusive growth in operations to capture policy effectiveness on job creation and competitiveness; service delivery, in particular value for money, accountability and sustainability; and social inclusion.

6. ADF-13 Indicative Financial Scenarios

- 6.1. The level of replenishment will have an impact on the responses provided by the Fund and the need for priorities.
- 6.2. The scenarios are particularly crucial given the current financial and economic crisis, with many donors facing tight budgets and high domestic needs. The current low interest rate environment poses particular challenges and continues to reduce the Fund's internally generated resources due to lower than anticipated returns on the investment portfolio. Against this backdrop, as elaborated in the paper "The ADF-13 Financing Framework," the Advanced Commitment Capacity (ACC) of approximately UA 1.0 billion for ADF-13 is significantly lower than the UA 2.0 billion achieved for ADF-12 (table 1). The lower ACC is also due to lower cash inflows from loan cancellations. The revised Loan Cancellation Guidelines, approved in 2011, allow 70% of cancelled resources to be retained by the country for re-commitment to on-going operations or new activities, and the remaining 30% to be returned to the general ADF pool. This impacts the ADF-13 ACC by a reduction of UA 450 million; however, it creates greater efficiency in resource planning and utilization at country level. The lower ACC and the continuing substantial needs of ADF countries imply that strong efforts will be required from both the Bank Group and donors to help the Fund sustain the pace of its development assistance to eligible regional member countries and fulfill its mandate.

Table 1: ADF-13 financing scenarios*(UA millions)*

	ADF-12	LOW CASE SCENARIO 0% real growth in donor subscription	CONSOLIDATION SCENARIO 29% real growth in donor subscription	TRANSFORMATION SCENARIO 43% real growth in donor subscription
ACC	2,007	950	1,018	1,052
Donor subscriptions	3,769	4,027	5,185	5,771
Additional contributions	29	-	-	-
Resources	5,805	4,978	6,203	6,823
Carry-over amounts	458	512	512	512
TOTAL RESOURCES	6,263	5,490	6,715	7,335
Growth over ADF-12 (real)		-20%	0%	10%

- 6.3. **Low Case Scenario.** A 0% increase in donor contributions in real terms would mean that the ADF-13 would have total resources of UA 5,490 million (20.0% lower in real terms than ADF-12). **Such a scenario would greatly restrict the ADF mandate to deliver on its core operational priorities.** Given the steady growth in ADF replenishments since 1999, this would be a break from the trend. It would mean cutting the implementation of core operational areas as compared with ADF-12. Under this scenario ADF would be able to finance about 66.1% of its current estimated pipeline of projects, 68.3% of the national pipeline and 43.0% of the regional.
- 6.4. **Consolidation Scenario.** A 29% increase in donor contributions in real terms would mean that the ADF-13 would have total resources of UA 6,715 million (0% real growth over ADF-12). This scenario would recognize donors' steady contribution to the ADF. It would require a gradual consolidation of funds allocated to institutions for Africa into the ADF over the next two ADF cycles of 2017–2019 and 2020–2022, covering the full scale of the Bank Group's Long Term Strategy implementation over the coming decade. Under this scenario ADF would be able to finance about 81.8% of its total current estimated pipeline of projects for 2014–2016, 89.1% of the national pipeline and 53.2% of the regional.
- 6.5. **Transformation Scenario.** A 43% increase in donor resources in real terms would enable the ADF to implement the objectives and priorities of the Long Term Strategy over the coming three-year period. With total resources of UA 7.3 billion (10% higher in real terms than ADF-12), this scenario would allow the ADF to cover a majority of its financing needs of the current UA 7.6 billion pipeline. While donor resources are limited under the current economic climate, this would require transferring funds allocated to Africa through other institutions to the ADF. The Transformation Scenario would empower the Bank Group, by taking full advantage of the foundations firmly established within the institution, to absorb and manage substantially increased resources, to become the preferred partner in Africa to better support the efforts of its ADF regional member countries. Under this scenario the ADF would be able to finance about 89.8% of its total current estimated pipeline of projects, 99.6% of the national pipeline and 58.3% of the regional.

7. Conclusion—The ADF-13 Mission

- 7.1. Africa's transformation into the next set of emerging economies will have a positive and far-reaching effect, not only for the people and continent of Africa but also for the global economy. This ADF-13 Overview focuses on the ADF is positioned to effectively channel development resources to address Africa's pressing challenges, using all the tools at the Bank Group's disposal, while leveraging its legitimacy and franchise value as an African institution.
- 7.2. We seek Deputies guidance on the ADF-13 Strategic and Operational Directions as laid out in this paper.
- 7.3. The time for ADF to scale up its interventions is now, and this can be only done with the collective support of the donors.

Annex I: The ADF and Inclusive Growth

“Inclusive growth refers to economic growth which results in wider access to sustainable socioeconomic opportunities for a broader number of people, regions, or countries, while protecting the vulnerable, all in an environment of fairness, justice and political plurality.”

Despite strong increases in African GDP over the past decade, growth has not been inclusive enough nor has it led to deep reductions in poverty and inequality. Africa’s growth tends to be concentrated in limited range of commodities and extractive industries, which do not allow for the employment generating activities that would allow for a majority of the population to share in the benefits. Growth is not reaching many of those in deep poverty. Inequality has become more pronounced and more visible. Unless the continent can find a way to promote inclusive growth, growth itself may become a source of instability. Inclusive growth has the following elements:

- Economic inclusion (reducing inequality in GDP per capita, jobs creation).
- Social inclusion (protection of vulnerable, human capital development, gender).
- Spatial inclusion (regional integration, inclusion through inclusive infrastructure, such as transport and energy projects).
- Private sector inclusion (procurement with backward links to small and medium enterprises).
- Institutional inclusion (governance, political inclusion, voice and accountability, service delivery, inclusive leaderships).

The Fund will invest in infrastructure that unlocks the growth and development potential of the private sector and enhances community participation, including youth and women. It will improve skills for competitiveness and ensure that training better matches the opportunities and requirements of local job markets. And it will engage governments on gender through policy dialogue and strengthening capacity—specifically, on property rights, equal access to effective justice and participation in decision-making. The Fund’s private sector development operations will focus more on micro, small and medium enterprises as an engine for job creation. In fragile states the Fund will adopt flexible approaches, given the weak institutional environment, and work more with civil society.

The Bank Group will be shortly be releasing an Inclusive Growth Index by country. Inclusive growth is also being mainstreamed in the Bank Group’s Country Strategy Papers. The Country Strategy Papers are being implemented with the mainstreaming of inclusive and transition to green growth as key strategic objectives for its operations across countries. The new Operations Manual will outline the step-by-step implementation of the inclusive and transition to green agenda in the Fund’s coming operations.

In the areas of the OSVP Sector Vice Presidency Complex covering governance (OSGE), human development (OSHD) and agriculture and rural development (OSAN), the share of operations targeting inclusive growth in 2012 is more than 40%. For instance, agriculture and rural development projects in Nigeria, Senegal and Zambia will directly contribute to improving smallholder farmers’ welfare while increasing job creation, notably for youths.

Annex II: The ADF and the Gradual Transition to Greener Growth

“The transition to green growth involves the promotion and maximization of opportunities from economic growth through building resilience, managing natural assets efficiently and sustainably, including enhancing agriculture productivity and promoting sustainable infrastructure.”

The transition to green growth in Africa means enabling sustainable growth and creating prosperity by taking a holistic approach to development which values human, social and natural capital; efficiently and sustainably uses goods and services; and builds resilience in a changing and increasingly inter-connected world. A gradual transitioning to green growth is necessary to preserve the livelihoods of millions of Africans through improved food security and reduced water stress in the face of climate change. Ethiopia, Rwanda and South Africa have recently formulated green growth strategies. Responding to the challenges of climate change through adaptation and mitigation and building resilience are national and regional imperatives. Sierra Leone and Mozambique are integrating green growth in their country strategies. The Bank Group is also undertaking scoping activities in Senegal, Cape Verde and Kenya.

In Sierra Leone the government has embarked on the green growth pathway by mainstreaming green growth directly in their Poverty Reduction Strategic Paper. Some ADF countries, including fragile states, are the Fund's leading partners in the area of inclusive and green growth.

The United Nations Conference on Sustainable Development in Rio (Rio+20) recognized that broader measures are needed for measuring development progress beyond GDP. Its conference document describes the transition to a green economy as an important tool for achieving sustainable development, while underscoring that defining elements of this transition will have to be country-led.

For Rio+20 the Bank's Green Growth team produced the discussion paper, “Facilitating Green Growth in Africa: Perspectives from the African Development Bank.” The paper frames green growth as an opportunity for enhancing the quality of growth on the continent and ensuring the sustainability of development progress. Emphasis is placed on identifying green growth strategies tailored to country circumstances to help countries develop their infrastructure in a sustainable manner, manage their natural assets efficiently and strengthen resilience to climate change and other potential environmental and socioeconomic shocks.

Climate Change Action Plan

For the past several years, the Bank has been supporting its regional member countries in addressing climate challenges. It has designed a Climate Change Action Plan for 2011–2015 to support regional member countries in adapting to climate change and mitigating its effects while focusing on infrastructure development and regional operations. As part of this effort the Bank has engaged in mainstreaming climate change at the strategic level, in its Country Strategy Papers (CSPs) and Regional Integration Strategy Papers (RISPs).

Guidance Document for Mainstreaming Climate Change

In 2011 and 2012 the Bank mainstreamed climate change in about 10 CSPs; on the basis of these pilot experiences, a task force was set up to prepare a “Guidance Document for Mainstreaming Climate Change in Bank's CSPs and RISPs.” The objective is to provide guidance for Bank's teams to conduct the dialogue with governments on climate change issues, ensuring that climate risks are fully taken into account and that requisite measures to address these risks are fully integrated into the final CSPs/RISPs. The Document is expected to be approved by Bank's Management in early 2013. The objective will be to include climate change mainstreaming in all CSPs and RISPs during the ADF-13.

County Adaptation Factsheets

The experts involved in climate change at the Bank Group have developed Country Adaptation Factsheets, for Ghana and Burundi. These factsheets summarize the Climate Risks, Current Climate, Recent Climate Trends, Future Climate Scenarios and Adaptation Planning for the country.

Green Growth Framework

In line with its new Long Term Strategy, the Bank is preparing a Green Growth Framework to guide staff in mainstreaming green growth in their operations.

Annex III: Results Measurement Framework for Inclusive and Transition to Green Growth

The Fund measures its success by the lasting changes it brings to the lives of people in Africa. The Results Measurement Framework (RMF) is an important means of tracking and demonstrating progress toward the priorities set out by the ADF on inclusive growth and transition to green growth and on core operational priorities.

A new RMF will be ready for discussion with donors for the second ADF meeting on results. This process is under way, drawing on the lessons from the current RMF for 2010–2012 and on good practice from other multilateral development banks. A set of Level 1 indicators tracks the impact and development results of the ADF in Africa.

Level 1 Results: Monitoring Africa's Progress

Indicator	Unit of measurement	Baseline value (2011)	Source
Inclusive growth			
Population living below USD1.25 a day (PPP)	%	42.3	ADB
Income inequality (Gini Index)	%	44.9	ADB
Total unemployment rate	index	11.3 ^a	ILO
Youth unemployment rate	index	15.6	ADB
Women unemployment rate	index	17.4 ^a	ILO
Fragile countries	%	31	ADB
Green growth			
CO ₂ /GDP	kg CO ₂ /USD	1.04 ^b	IEA
Ecological footprint	gha	1.4	Global Footprint Network
People affected by natural disasters (including deaths)	millions	22.6	Centre for Research on the Epidemiology of Disasters
Infrastructure			
Access to modern infrastructure	% of total roads; road density; railway density; port throughput/tonnage; airport capacity	23.4	ADB
Access to electricity	% of population with access	36.8	ADB
Improved access to water source	% of population with access	67.4	WHO/UNICEF Joint Monitoring Programme
Increased access to mobile-cellular	telephone subscriptions per 100 people	61.4	International Telecommunication Union
Broadband access	subscribers per 100 people	3.95	ITU, GSMA and Internet World statistics
Regional integration			
Intra-Africa trade	% of total African trade	10.4	ADB
Africa's share of global trade	%	3.7	ADB
Private sector development			
Global competitiveness index ranking	1 to 7	3.6	Center for Global Competitiveness
FDI into Africa	% of global FDI	2 ^b	Ernst & Young
Private sector share of total investment	%	63	ADB
Domestic credit to private sector (share of GDP)	%	78	ADB
Governance and accountability			
Worldwide governance indicators average score	–2.5 to 2.5	–0.6 ^c	World Bank
Safety and the rule of law	1 to 100	53	Mo Ibrahim
Participation and human rights	1 to 100	45	Mo Ibrahim
Skills and technology			
Share of higher education students in science, technology, engineering and mathematics	%	29.9 ^c	UNESCO
Internet users	%	16	ADB

Annex IV: Partnerships for Inclusive Growth and the Transition to Green Growth

The Bank Group plays a lead role in building partnerships in Africa to champion inclusive growth and transition to green growth, allowing everyone to do more.

Some of the Bank's partnerships in inclusive growth are:

- *Joint Youth Employment Initiative* together with the AU, ILO and UNECA, a task force that aims to consolidate and mainstream various employment generation efforts for the youth;
- *Social Business and Holistic Social Business Movements in Africa*, supported by Japan – a pilot project to develop social businesses, focusing on youths in rural and disadvantaged areas;
- *Liberalizing Innovation Opportunity Nations (LIONS Africa)* partnership, launched during the World Economic Forum on Africa in Addis Ababa, together with USAID, Microsoft and Nokia, to promote innovation in Africa by providing a platform to inspire African entrepreneurs;
- *New Faces New Voices* is a pan-African organization of women in business and finance established in 2009, as the business and finance pillar of “Multiplying Faces, Amplifying Voices,” an initiative founded by Graça Machel.

For the transition to green growth, the Bank Group is forming several new strategic partnerships:

- With Brazil's National Development Bank, the Food and Agriculture Organization and other multilateral development banks.
- With UNECA, the AUC and regional economic communities in low carbon development, climate risk management strategies and sustainable development.
- *With* the World Bank, UNEP and OECD on producing an Inclusive Green Growth Policy Toolkit based on a request from the G20.
- With the Republic of Korea to promote transition to green growth initiatives in Africa. The Bank and the *Korea*-based Global Green Growth Institute intend to establish a learning and action platform.
- With the World Wide Fund for Nature (WWF) on Green Development in July 2011, under which the ADB and WWF released the Africa Ecological Footprint Report at Rio+20.
- With various development partners (bilateral or multilateral) to support African governments at the country *level*, as in Sierra Leone, Mozambique, Kenya and Cape Verde.
- With the joint MDB Climate Finance Tracking initiative, where the Bank led the work on Adaptation Finance Tracking Methodology.
- With the IFI initiative for a Framework for GHG emissions accounting.