African Development Fund (ADF)
ADF-13 Second Replenishment Meeting
Tunis, Tunisia, 12-14 June 2013

Chair's Summary

1. ADF Deputies and observers from international development institutions, bilateral agencies, AfDB Board members and AfDB Management met in Tunis, Tunisia from 12 to 14 June 2013 to discuss the thirteenth replenishment of the African Development Fund (ADF-13). They were joined in their discussions by the Minister of Economic Infrastructure from Côte d'Ivoire and the Deputy Ministers of Finance of Ghana and Malawi. The meeting was chaired by Mr. Richard Manning and this Chair's Summary is issued under his responsibility.

2. Opening the meeting, President Kaberuka underlined the role of the ADF in promoting high quality, sustainable growth to support Africa's structural transformation in the context of the Bank Group Strategy for 2013-2022. He emphasized the accomplishments of the Bank Group, which have been achieved despite the substantial challenges at the global and regional level. The President highlighted that the roadmaps on the return to the Bank's headquarters in Abidjan and on decentralization are key priorities going forward, as well as the wider ongoing reform process to enhance institutional efficiency, effectiveness, accountability and empowerment of staff. He also pointed out that the Bank had developed from being a small and very centralized organization to a larger and more complex one. He referred to the importance in this context of the new Delegation of Authority Matrix, enhanced accountability and the planned introduction of performance contracts. Recalling Management's ambitions for Africa and the institution, he urged the donors to keep the Fund strong whilst acknowledging the difficult fiscal environment, arguing that it is now more necessary than ever as Africa confronts the challenges of transformation. Management is making substantial efforts to attract new members, both African and non-African, and to leverage the scarce ADF resources. He outlined the thinking behind the Africa 50 Fund, stressing that it did not involve new set-asides, and was intended to be complementary to other innovative financial instruments. The President stressed the need to conclude the replenishment process on time in order to avoid a hiatus between the start of the financial year and the entry into force of ADF-13.

3. The Deputy Minister of Finance from Malawi acknowledged the substantial support from the ADF and commended its responsiveness in face of a very difficult macro-economic environment. He recalled that the ADF's operations, particularly in the area of infrastructure, are helping to stimulate trade, increase food production, improve sanitation facilities, access to clean water and support income-generating activities. He underlined that the Bank Group's new country strategy for Malawi is fully aligned to the government's own national development strategy, focusing on regional integration and mainstreaming gender as well as green and inclusive growth. He encouraged Deputies' support for a continuation of such efficient use of ADF resources.

4. The Deputy Minister of Finance and Economic Planning from Ghana pointed to the clear development results on the continent achieved by the ADF, and expressed that this is the time to keep the Fund strong, to stay the course and not to contemplate weakening it. He emphasized that as African countries progress in their development, their needs become different, and the Bank Group should respond to this accordingly with innovative instruments, advice and technical support, especially in areas of skills development. He urged the Deputies to continue to support the ADF so that the Fund can continue to support fragile states, low-income countries and emerging middle-income countries in the most appropriate way.

5. The Minister of Economic Infrastructure of Côte d'Ivoire shared his experience of the ADB, based on its closer knowledge of the continent and ability to leverage private sector financing, showing responsiveness to countries' needs by being willing to take risks that other institutions would not take. He also highlighted that fragile states are disproportionately affected by delays to project implementation, often due to procurement, and face greater challenges of human capacity, and stressed the importance of understanding the regional effect of conflict and fragility. He emphasized that the Bank's decentralization was helping to improve effectiveness, but urged the Bank to further develop its instruments, services and competences to continue to serve clients who are in transition.

6. Participants welcomed Egypt's expressed intention to remain a donor in ADF-13, and Libya's announcement of a contribution of approx. USD 37 million to ADF-13.

ADF-13 Comparative Advantage and Indicative Operational Program

7. Participants recognized the AfDB Group's sole focus on Africa and that it is a trusted partner for African countries, supported by its ambitious program of decentralization to bring it closer to its clients. They welcomed the strong focus on regional integration and the unique convening and brokering role the Bank Group has shown that it can play. Some Deputies felt that the AfDB Group could be more explicit about its role in policy dialogue, particularly in the area of governance, and called for a more consistent and prominent treatment of the issue of gender. Several Deputies requested further information on a new strategic framework and action plan for gender equality, and on the Gender Special Envoy.

8. Participants welcomed the ADF-13 operational priorities and areas of special focus, which are derived from the Bank Group Strategy for 2013-2022. They encouraged the Bank Group to expand its role in the area of domestic resource mobilization and natural resource management in Africa. Some participants also emphasized actions to tackle issues of illicit financial flows (including both pull and push factors). If addressed, these would all offer a strong potential for enabling Africa to increasingly finance its own development. Deputies urged Management to quantify the impact of ADF investments to more clearly demonstrate the achievement of development results on the ground.

Institutional effectiveness and efficiency

9. Participants commended Management for the efforts being made to further strengthen institutional effectiveness and efficiency, and stressed the need to carry these forward into execution. They encouraged Management to ensure a smooth and well-managed process in implementing the Roadmap for the Return to Abidjan, and stressed the importance of continued pursuit of value for money and efficient use of budgetary resources.

10. Accountability and results culture: Participants underscored the importance of a true results culture at all levels of the institution. They welcomed the Bank's initiative to strengthen performance management at senior management level, which would have strong cascading effect throughout the institution. They noted that good people management and career development are vital in attracting and retaining high-quality staff. The progress that has been made in reducing vacancy rates should be sustained.

11. Initiatives/Reform matrix: While expressing appreciation for the matrix summarizing the Bank's modernization agenda, participants emphasized the importance of prioritizing and properly sequencing the reforms and initiatives, whilst ensuring the linkage to the Bank's Results Measurement Framework, and against the background of the return of the Bank to its headquarters in Abidjan. In response to requests from Deputies, Management will provide clarification on the linkage between the listed initiatives and the work currently being undertaken by McKinsey, as well as an updated matrix (highlighting strategically important activities, key deliverables and midterm targets), for the third replenishment meeting, with a view also to providing a basis for monitoring of progress at the next MTR.

12. Delivery and portfolio performance: Participants acknowledged the importance of decentralization and effective delegation of authority for efficient delivery of services. RMC participants stressed that country presence has led to greater responsiveness of the Bank, smoother implementation of projects and faster disbursement, but it was noted that the time taken from approval to first disbursement was still significant. Participants noted the Bank's increased efforts towards greater use of country systems and intensive support for capacity building. They stressed the need to strike the right balance in applying flexible and adaptable approaches in Bank's business processes/procedures in the context of fragile states, while managing fiduciary and other risks. Participants also highlighted the importance of closer engagement with non-state stakeholders at the country level, which is an essential part of the Bank's work in the area of governance and accountability.

13. Gender: Participants expressed appreciation for the greater coverage of gender issues in the documentation, and for the appointment of a Gender Special Envoy (who might usefully attend the next Deputies' meeting). They stressed the need to complete the gender strategy and action plan expeditiously for discussion at the Board in September. Some considered that the target for

increasing female representation in senior management positions was very unambitious, and encouraged Management to reconsider it.

Presentation from independent evaluation department (OPEV)

14. Participants welcomed a presentation from the Director of the independent evaluation department (OPEV) and commended the work achieved. Several Deputies encouraged greater use of impact evaluation. A number of Deputies also called for further strengthening the independence and effectiveness of the evaluation function, including through independent management of financial and human resources by the Evaluation Department. Emphasizing the role of "knowledge takers", Deputies encouraged the Bank to better follow up on key recommendations made by OPEV and to ensure that evaluation knowledge is fully included in its efforts to become a "knowledge bank".

15. Participants encouraged OPEV to undertake a broader evaluation study of the African Development Bank, in line with a number of studies recently completed by sister institutions that were named in OPEV's presentation. It was agreed that OPEV will submit a concept note with options outlining the scope, timing and methodology of such a study, which will be submitted to the Committee on Development Effectiveness (CODE) of the Board of Directors.

Results Measurement Framework (RMF)

16. Participants commended the new draft Results Measurement Framework and the reforms undertaken to better report and manage for results. They welcomed the greater focus on inclusive growth, green growth and gender, while encouraging Management to work closely with other institutions to strengthen the metrics in these areas. Deputies made specific suggestions for the inclusion of indicators covering a range of areas including governance, fragile states, transparency, water, malnutrition prevalence, and inclusive growth, and emphasized the need to pay special attention to indicators of green growth including, for example, measures of CO_2 emissions. One Deputy asked for further disaggregation of outputs. At the same time some Deputies cautioned against diminishing the value of the RMF as a management tool by adding too many new indicators.

17. Underlining the importance of keeping a focused and limited set of indicators for the RMF, and agreeing with Deputies that the cost of any system must be kept under control, Management agreed to circulate by the end of June 2013 a matrix providing definitions and the rationale for the indicators suggested in the new RMF, giving Deputies an opportunity to provide further comments. Management also agreed to present a final draft of the RMF to CODE ahead of the third ADF-13 replenishment meeting, before presentation to the Board in October.

Fragile States

18. Participants reiterated their support for the Fund's sustained and deeper engagement in Fragile States to preserve the gains made, while stressing the need for additional improvements in delivery and management of assistance. They strongly endorsed the importance given to this issue in the Bank Group's Strategy for 2013-2022, and urged Management to expedite the work of the High Level Panel on Fragile States so as to ensure that its work can inform the drafting process of the new AfDB strategy on Fragile States and that preliminary recommendations feed into the third ADF-13 replenishment meeting.

19. Bank Group's effectiveness in fragile states: Participants supported the strategic directions and operational focus outlined by Management, and urged for a greater attention to private sector development, youth and inclusiveness. They underscored that the AfDB has the opportunity to enhance the effectiveness of its assistance to fragile states by leading innovative solutions in addressing regional implications of fragility; deepening "continuum" approaches to tackling fragility; improving donor coordination and exploring a "single desk" approach on a pilot basis; exploring options to improve procedural efficiency and flexibilities in business processes; building long-term capacity; and better supporting countries in arrears. In this context several Deputies referred to the New Deal for Engagement in Fragile States and asked for strong coordination with the International Dialogue on Peace- and State-building. Furthermore, Deputies stressed the importance of ensuring that the Bank could deploy high-quality staff in Fragile States, and welcomed the participation by two such Resident Representatives in the meeting.

20. Proposed adjustments: Participants broadly supported Management's proposals to improve the flexibility, responsiveness and effectiveness of the ADF operational and resource allocation framework to fragile states and implementation of the FSF. While calling for additional clarification in some areas, to be included in a short note for the third replenishment meeting, they endorsed Management's proposals to:

    i. *Introduce additional qualitative measures* for identifying fragile states and for assessing eligibility for assistance from the FSF; and pilot a standardized assessment tool, the *Country Resilience and Fragility Assessment (CRFA),* during ADF-13, noting that the CRFA will not be used for resource allocation purposes during the ADF-13 period; they wished to see further clarification at the next meeting on how this would be operationalized.

    ii. *Revise the FSF Pillar I first-stage eligibility criteria,* and present country-by-country eligibility assessments to the Board in due course; Deputies also wished to see more details of how the criteria would be made operational to achieve a right balance between judgment and objectivity.

    iii. Enhance responsiveness by *keeping a portion of FSF Pillar I resources unallocated* to be used for emerging needs or changing situations; while requesting Management to provide additional clarification on its operationalization, in particular with regards to the size and eligibility criteria. The use of uncommitted Pillar I resources would be reviewed at the ADF-13 Mid-Term Review.

    iv. *Lengthen the period of Pillar I support,* as agreed during the first meeting, in combination with *modified discount factors and Pillar I top-up multiplier,* while striving to minimize the impact of Pillar I resource reduction on countries facing the risk of slippage or reversal. Management was encouraged to consider how this might be achieved in practice, including by modifying the discount factor or in other ways. Participants called for greater focus on graduation support given the 'transitional' nature of the FSF Pillar I. Some Deputies also highlighted the importance of refining the assessment of FSF Pillar I phase-out to ensure the best responsiveness possible.

    v. *Allocate additional resources (UA 179.83 million) to Pillar II* to clear the arrears of Somalia, Sudan and Zimbabwe to the ADB as proposed by Management to supplement the UA 362 million that will be rolled over from ADF-12. The status of utilization of Pillar II resources should however be reviewed during the ADF-13 Mid-Term Review to take account of both the likelihood of remaining funds being used as well as the political signal of retaining an allocation for any countries still in arrears.

    vi. *Allocate UA 44 million to Pillar III* for targeted capacity building, while taking full account of the findings and recommendations made in the 2012 OPEV evaluation with a view to enhancing the effectiveness of the use of these funds, and explore possible linkages between Pillar III support and the African Legal Support Facility.

21. Citing the importance of respecting the Bank's Sanctions Policy, many Deputies expressed reservations on the proposal to allow exceptional access to a country's PBA in situations of emerging needs or changing circumstances (and where the country does not have Pillar I resources). It was pointed out by the Minister from Côte d'Ivoire that the inability of the Bank to provide more than technical assistance to such countries could pose real problems. Management will provide additional clarification and assessment criteria on the proposal, for further discussion during the third meeting.

22. FSF resource envelope: Participants agreed that the overall size of the FSF resource envelope as well the final amount for each pillar should be discussed during the last meeting, while underscoring their commitment for sustained and predictable support for eligible countries. Some Deputies expressed concern about the potential size of the allocation to the FSF.

ADF-13 financing framework and capacity

23. In response to Management's proposals, Participants provided the following guidance:

- Financing framework: Deputies endorsed Management's proposals for a dual standard encashment schedule (4 and 10 years) and a revised Accelerated encashment framework.
- Advanced Commitment Capacity (ACC): Participants welcomed the additional clarifications provided by Management on the assumptions underlying the ACC. Some Deputies requested further consideration of how cancellations of resources from previous replenishment cycles could be presented in the ADF-13 context.
- Differentiation: The majority of Deputies expressed their preference for using GNI per capita to differentiate ADF-only borrowers rather than the revised African Human and Infrastructure Development Index as proposed by Management. Management deferred to the majority view and will provide a table showing the two groups of countries on the basis of GNI per capita.
- Hardening of lending terms: While reiterating the wish to see reasonable alignment with IDA, a strong majority of Deputies supported the proposed lending terms for ADF (concessionality level of 61% for "regular" loans and 51% for "advance" loans to ADF-only countries, and 35% for blend, gap and graduating countries). It was noted that IDA's own position was under review, with concessionality levels between 51% and 55% for all IDA-only countries. I concluded that this issue should now be regarded as closed.
- Financial terms of FSF Pillar I: Expressing concern on the overall share of grants in ADF financing, some Deputies asked Management to consider adjusting the financing terms of countries' Pillar I allocations, which are currently fully provided as grants, to match the loans and grants mix of their PBA allocations, which are determined by a Debt Sustainability Analysis. Management will take this into consideration and will provide an update for the third meeting.

24. It was agreed that the technical gap would more appropriately be discussed at the next replenishment meeting. Several Deputies asked for a further and more conservative Replenishment Scenario, for example one that would take constant nominal donor contributions as a basis. I gave it as my opinion that in order to avoid self-fulfilling prophecies and recognizing that actual contributions were bound to deviate from any scenario, a preferable alternative would be to assume as a first approximation that if resources fell below the present low scenario, all allocations expressed in nominal terms should be reduced in proportion to the shortfall. Clearly this will be a focus of our next meeting, when the real level of resources available will be a good deal clearer and necessary trade-offs can be discussed against that background.

Innovative Finance Instruments

25. Participants expressed broad support in principle for introducing the two innovative instruments proposed, the Partial Credit Guarantee and the Private Sector Facility, in ADF-13, subject to more detailed proposals being elaborated, presented to and approved by the Board of Directors. The proposals should address the following issues, among others:

- Partial Credit Guarantee: Several Deputies raised concerns on the potential implications for the Debt Sustainability Framework of allowing State-Owned Enterprises of countries with a high risk of debt distress to benefit from this product, which requires a counterindemnity from the country. Some Deputies requested Management to demonstrate more clearly the demand for this product, and one called for specific measures to encourage the use of the existing Partial Risk Guarantee instrument, perhaps by linking them with the 'PSF' in a single set-aside
- Private Sector Facility: Several Deputies underlined the importance of managing risks, and requested Management to discuss the instrument in detail with rating agencies in order to safeguard the AAA rating of the Bank. Deputies also requested clarification on the legal structure of the facility and on measures to avoid conflicts of interest in the decision making. Some participants suggested that the instrument's name could better match its function.

26. There was an informal briefing on the Africa50Fund, which received strong support from the Deputy Ministers from Ghana and Malawi and the Minister from Côte d'Ivoire, who highlighted the huge infrastructure needs of the continent and the imperative of attracting long-term investment.

Most of the Deputies who spoke supported the general concept, while requesting further details, clarification, elaboration and justification. Some questioned the appropriateness of using ADF resources for the Africa50Fund. Several Deputies underscored the time likely to be needed to implement the proposal given the number of pending questions, and the need to take account of constraints faced by other such funds.

Resource Allocation

27. Participants welcomed the quality and technical detail of Management's proposals concerning the Performance-Based Allocation (PBA) system. A large majority of Deputies agreed that the *minimum allocation* should be increased to UA 15 million per cycle. A few Deputies expressed their desire to see a lower increase in the minimum allocation (in line with IDA-17's which was raised to UA 12 million per cycle). I concluded that we should go ahead on the basis of Management's proposal.

28. Mixed views were expressed on the proposed addition of a Cluster E to the Country Policy and Institutional Assessment and inclusion of the Africa Infrastructure Development Index in the PBA formula. Some Deputies expressed reluctance to modify the PBA formula, and expressed concern at perceived complexity and about changing the balance between the needs and performance components of the formula, Others supported the proposed measures to promote stronger alignment of the PBA system with the ADF's operational priorities, particularly its focus on infrastructure, as set out in the Strategy for 2013-2022. It was agreed, in the absence of consensus, that Management will continue the discussions with Deputies on a bilateral basis and will present at the third replenishment meeting a proposal which should have a reasonable chance of being accepted.

29. Participants took note of the two scenarios proposed for the Fragile States Facility. Given Deputies' agreement to the proposed modified phase-out discounts and top-up multiplier, in principle the lower scenario should be used for modelling the uses of the Replenishment. It was agreed to decide the final size of the facility (and, as noted above, the operational features of the proposed unallocated element of Pillar 1) during the third meeting.

30. Deputies agreed to Management's proposals to (i) allow FSF Pillar I allocations to leverage Regional Operations envelope funding and (ii) offer a differentiated multiplier of 2 times for the countries eligible for FSF Pillar I, versus 1.5 times for other ADF recipients. Recalling the existing demand from beneficiary countries, several Deputies supported a strong RO envelope. Deputies also expressed general support for pursuing greater leverage of policy reforms through the RO incentive mechanism on a pilot basis in ADF-13. Concerning countries with small PBA allocations, Deputies agreed to require a contribution of at least 40 percent of project costs up to 10 percent of their PBA for each regional project undertaken.

31. Participants supported the allocation of UA 165 million from ADF-13 resources to the Private Sector Facility, subject to the Board agreeing to the introduction of this instrument. The final amount will be agreed with respect to the global amount of set-asides.

32. The disposition of unused ADF-12 resources as well as the final allocation of ADF-13 resources between the PBA and the set asides will be decided at the final replenishment meeting.

Draft Deputies' Report

33. Following reflection of the discussions during the second replenishment meeting, a revised Draft Deputies Report will be circulated to Deputies in 3-4 weeks, i.e. by mid-July for their detailed comments.

34. Participants made some initial suggestions on points to be included in the Report, as follows: MDG shortfalls, gender equality, institutional effectiveness (including a monitorable action matrix), policy design, the Fund's role in natural resource management, governance and accountability, domestic resource mobilization, better definitions for inclusive and green growth (linked to the Ten Year Strategy), the recommendations from the High Level Panel on Fragile States, the role of OPEV and the reports to be produced in time for the ADF-13 MTR. In addition, the next steps to

be undertaken by the Bank Group in the process of developing the innovative financing instruments should be included.

Next Meeting

35. It was confirmed that the next meeting would be held on 25-26 September 2013, probably in Tunis.

Richard Manning, ADF-13 Coordinator

June 2013