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ADF-13 Draft Deputies' Report
Africa's Fund, for Africa's Future
Supporting Africa's Transformation

Discussion Paper

ADF-13 Second Replenishment Meeting
June 2013
Tunis, Tunisia

AFRICAN DEVELOPMENT FUND

Executive Summary

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Abbreviations

ACC	Advanced Commitment Capacity
ADF	African Development Fund
ADF-13	Thirteenth General Replenishment of the African Development Fund
AfDB	African Development Bank
CSP	Country strategy paper
GAP	Governance Strategic Directions and Action Plan
PBA	Performance-based allocation
PPP	Public–private partnership
RMC	Regional Member Country

ADF-13 DRAFT DEPUTIES REPORT

1. Introduction

1.1. **The Thirteenth General Replenishment of the African Development Fund (ADF-13) takes place at a time of optimism for Africa as a developing growth pole in the world economy.** The words 'rising' Africa are being used to characterize the continent. But it is also a time of risks and challenges, old and new, which could undermine or even reverse the achievements to date. Once stable Mali, for example, is fragile, after conflict. Natural resources are being discovered and explored, but these resources must be managed sustainably to ensure equitable and environmentally conscious growth. Productive jobs remain scarce for the growing number of young Africans with higher levels of education and higher expectations.

1.2. **The African Development Fund (ADF), part of the integrated African Development Bank Group (AfDB Group or Bank Group),** has a particular advantage as a partner for the transformation of Africa**.** The Bank Group is solely focused on Africa. It has only one agenda and one mandate – the socio-economic development of the continent. The goal is a regionally integrated and economically diverse Africa – delivering inclusive growth to young and old, women and men, rural and urban alike, while ensuring that this growth is sustainable and 'green'—that will establish Africa as the next global emerging market. The Fund is a trusted partner for Africa, tasked to deliver on a shared agenda. Its many successes reflect those of the continent it serves – while the outstanding agenda for true transformation across its 53 regional member countries (RMCs) remains large, with the need to leverage resources. The vision of Africa in 50 years' time[1] is transformational, one in which the ADF is partnering with most African countries to achieve as its development voice and its development partner of choice.

1.3. **The Twelfth ADF cycle (ADF-12) witnessed deterioration of public finances and sovereign debt issues, which had an impact not only on the Eurozone, but also on Africa,** especially countries that have close economic relations with it. While fiscal cliffs were avoided, recovery is tentative. Fiscal and monetary stimulus is being provided to establish growth in the developed world. The main risks to Africa's overall positive outlook are a fragile global recovery, and in some regions, political instability and climate variation. Rapid resolution of Eurozone sovereign debt issues would boost Africa's economic prospects further.

1.4. **On a more positive note, as we look to ADF-13 (2014–2016), global financial and market conditions have improved in early 2013, bolstering the global outlook.** The global outlook requires imbalances – mainly private and public debt overhangs – to be tackled by advanced economies and continued prudent macroeconomic policies and structural reforms among major emerging market economies. In a world with heavy use of unconventional monetary policies and rebalancing of private portfolios towards riskier assets, Africa's emerging markets need to stay vigilant and shape a sustainable growth trajectory.

1.5. **In a multi-speed global recovery – of strong growth, subdued recovery and continued recession[2] – Africa continues to be one of the world's fastest-growing regions.** Its growth is projected to be 4.8% in 2013 and 5.3% in 2014, and will be broad-based. There is a momentum of Africa's ownership for its development. It is expected to be driven by robust growth in agriculture and services and a rise in extractive activities in resource-rich countries. Owing to an increase in private consumption and investment, domestic demand will be buoyant. But differences will again emerge across sub-regions and countries: West Africa is projected to post the highest growth. Inflationary pressures are expected to ease, reflecting stable food and oil prices.

1.6. **The Fund enters ADF-13 in the first period of the Bank Group's new Strategy for 2013–2022, which reflects the aspirations of the entire continent.** The Strategy is firmly rooted in a deep understanding and experience of how far Africa has come in the last decade, and where it wishes to go to in the next. The Strategy is designed to keep the Bank Group at the centre of Africa's transformation and to improve the quality of Africa's growth. Its vision is thus Africa's

[1] AfDB. 2011. *Africa in 50 Years' Time: The Road Towards Inclusive Growth.* www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Africa%20in%2050%20Years%20Time.pdf.

[2] International Monetary Fund. 2013. *World Economic Outlook 2013*.

vision, and its future is Africa's future. [In the consultations for the ADF-13,[3] representatives of donor countries ("Deputies") acknowledged the Strategy as setting the agenda for the coming three years and beyond. To support the agenda, Deputies agreed on overall resources of units of account (UA) [xx] for the ADF-13 period, [xx%] more than the resources for ADF-12.]

1.7. The ADF-13 consultations included State Participants of the Fund, Participants from selected beneficiary countries (Côte d'Ivoire, Ghana, Kenya and Malawi), observers from international development institutions, and Management and staff of the Bank Group. ADF Deputies and representatives of beneficiary countries (collectively referred to as "Participants") agreed that a transformational impact on Africa meant ensuring that growth is shared and not isolated, that growth is 'inclusive' of all African citizens and countries, not just for some, and that growth is not just economically empowering but also environmentally sustainable. When growth is inclusive as well as 'green,' it creates the jobs that the continent needs now and that it will need in ever greater numbers as millions more young people enter the job market, with energies and aspirations to match.

1.8. For its part, the Bank Group committed to [ ].

1.9. Deputies recommended the Bank Group to [ ].

1.10. This report sets out Participants' conclusions from the ADF-13 discussions and presents Deputies' recommendations for the strategic direction and operational priorities that will guide the Fund's engagement with ADF-eligible countries during the ADF-13 period.

2. Setting a Transformational Agenda for Africa

Improving the Quality of Africa's Growth

2.1. Strategy for 2013–22 focuses on two overarching objectives to improve the quality of Africa's growth. The first is to achieve growth that is more inclusive, leading not just to equality of treatment and opportunity but to deep reductions in poverty and a correspondingly large increase in jobs. *Inclusive growth refers to economic growth that results in wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable.* The second is to ensure that inclusive growth is sustainable, by helping Africa gradually transition to green growth that protects livelihoods; improves water, energy and food security; promotes sustainable use of natural resources; and spurs innovation, job creation and economic development. *Green growth is defined as the promotion and maximization of opportunities from economic growth through building resilience and managing natural assets efficiently and sustainably – including enhancing agriculture productivity and promoting sustainable infrastructure.*

Strategic and Operational Priorities for ADF-13

2.2. Strategy for 2013–22 outlines five main channels for the Bank Group to deliver its work and improve the quality of growth in Africa. First recommended by the High-Level Panel review of 2007, and later enshrined in the Medium Term Strategy for 2008–2012, these are areas in which the Bank Group has the greatest comparative advantage and proven track record. The Bank Group and research from others has repeatedly confirmed that these areas provide a compelling and consistent framework for the Bank Group's operations. The 2011 review of the Medium Term Strategy showed that the focus on these priorities had served its clients well, but that a longer planning horizon and a longer-term strategy were needed – underpinned by three-year rolling action plans.

2.3. Deputies expressed strong support for the agreed five core operational priorities: Infrastructure, Regional Integration, Governance, Private Sector Development, and Skills and Technology. They did the same for the three special areas of focus: Fragile States, Gender, and Agriculture and Food Security.

[3] ADF-13 consultation meetings were held in Tunis, Tunisia on 21–22 February 2013, with the second meeting on 12–14 June 2013 in Tunis, and the final meeting [on xx in xx].

2.4. **ADF-13 Indicative Pipelines:** Deputies [ ] noted the further analysis of demand, readiness and prioritization of projects in the pipelines presented by Management.

Implementing Inclusive Growth

2.5. Participants [ ] that in the coming ADF-13, the Fund's infrastructure interventions will include early-mover, catalytic support on key game-changing infrastructure projects. It will focus its financing on inclusive infrastructure that improves socio-economic situations associated with such infrastructure. The Bank Group has a deep-rooted understanding of the needs of those it serves and how to make a critical difference by enabling access for the local community. For example, for a road transport project to be inclusive, for example, it should incorporate feeder roads for local communities to get somewhere – to a school, a clinic, a market – thereby changing lives. The Fund will be innovative on green infrastructure with clean energy, urban infrastructure, urban and rural water and more. It will advise and partner with governments to make projects happen, responsive in its role as a multilateral bank to understand country risk; provide structuring advice; and leverage co-financing.

2.6. Regional infrastructure creates inclusion by allowing good and services to be exchanged at lower cost, and people and talent to move for employment and livelihoods. The Participants encouraged the Fund to continue to use its advantage as a trusted partner to play a unique and crucial brokering role in developing regional integration projects. Regional integration requires alignment of political leadership and economic rationale on the direction that countries in Africa need to take in order to develop. In most sub-regions of Africa there is good scope to accelerate the pace of integration to meet economic and social needs. The Fund will play an active role in negotiating and helping countries to work towards regional projects. It will work with partners on initiatives that bring country leadership in regions to dialogue on the integration roadmaps. The Fund will focus on hard and soft infrastructure, realizing the importance of both. The Fund has a unique role in establishing Regional Public Goods (RPGs) in Africa. For instance, the ADF will fund innovative projects in water and education to serve the citizens of Africa across borders.

2.7. The infrastructure needs on the African continent remain enormous. Many national and regional programs and initiatives attempt to address these needs, including the New Partnership for Africa's Development, the Program for Infrastructure Development in Africa, the EU-Africa Partnership for African Infrastructure, the World Bank Infrastructure Strategy, and the Africa Infrastructure Finance Facility currently being under development by the AfDB. In this context, the ADF is called upon to play its part - and it will continue to support infrastructure and regional integration, two priority areas of the recently adopted Strategy for 2013-2022, through all the instruments at its disposal, including country PBA allocations, the FSF and the RO envelope.

2.8. On private sector development, the Participants welcomed how the Fund works with both public and private sectors. Based on RMCs' strong appetite for public–private partnerships (PPPs), the Deputies encouraged the Fund to scale up its advisory role in PPPs, recognizing that this will require both operational and administrative resources. RMCs solicit and value the Bank Group's advice, as well as its technical and operational support, in preparing and implementing transformational projects in partnership with the private sector. Given the constraint of limited risk capital, the Deputies [ ] with the Bank Group proposal of an innovative Private Sector Facility in ADF-13 to enable it to carry out more private sector projects in ADF countries.

2.9. Inclusion via private sector development is crucial. Widespread access to employment opportunities, including for women and youth, are vital to social and economic inclusion. Economic opportunities for women are critical, as they are for youth: Africa is home to about 200 million people in the 15–24-year age group. By 2030, nearly a quarter of the world's young population will be African. Women comprise almost 50 percent of Africa's population. ADF-13 will work to provide jobs for women and youth, many of which can be achieved by developing small and medium-sized enterprises. In industry and financial services, the Fund will work on projects that integrate or serve local communities, such as outgrowers in agribusiness, and previously unbanked communities targeting women entrepreneurs.

2.10. In the governance and accountability architecture of Africa, the Participants urged the Fund to continue to be a strategic partner in African-led governance initiatives and post-conflict rehabilitation efforts. ADF-13 will continue to focus on improving relationships between state and citizen and advising efficient utilization of public resources. The Fund will enhance its support for key regional governance initiatives, such as the New Partnership for Africa's

Development on the African Peer Review Mechanism (APRM),4 where it was designated as a strategic partner in economic and corporate governance, including on banking and financial standards. It will play a significant partnership role in African-led governance initiatives, such as the African Parliamentarian Forum and the Collaborative Africa Budget Reform Initiative (on government budgets). Post-conflict rehabilitation efforts in fragile states will require critical strengthening of governance institutions, where the Fund will play a leading role.

2.11. The importance of governance and accountability as a condition for economic inclusion is evident. Good governance is also crucial for inclusive and sustained growth: countries that improve their governance produce three times more income per capita in the long term, according to the AfDB Governance Strategic Directions and Action Plan (GAP). The Fund's intervention in governance will focus on social inclusion by securing property rights for women, enabling half of Africa's population to take a greater part in its future and securing the role of the women in Africa.

2.12. The Fund is also increasingly delivering an innovative approach on skills and technology. The Participants [ ] that the Fund is promoting a game-changing approach through a New Model for Education in Africa (NEMA). NEMA supports better use of new technologies to improve learning outcomes and train teachers. Most important, this new model seeks to strengthen the links between skills produced in the educational system and labour market needs. NEMA includes programmes supporting women in science, and PPPs, to create a culture of innovation and entrepreneurship in Africa. The target is to harness the potential of youth in Africa by building their skills, and stimulating their creativity and sense of entrepreneurship.

2.13. The Bank Group is developing its Human Capital Development Strategy entitled One Billion Opportunities: Building Human Capital for Inclusive Growth in Africa. This identifies critical areas for better investment in human capital as part of the social inclusion agenda. It focuses on job-creating economic inclusion and giving voice for improved quality of public services and efficiency of public spending. The Fund's investment in human capital development will be strategically aimed at helping African countries move up the economic value chain, from dependency on natural resources, to efficiency- and innovation-driven economies. Success will also imply a clear recognition of the role of gender in achieving inclusion. The Fund's projects will continue to retain and enhance a strong gender component aimed at mainstreaming gender inclusion in project design and execution.

Special areas of focus

2.14. The Participants attached importance to ADF-13 continuing role as a trusted partner for African fragile states to build resilience with more predictable resources and long-term financing, with targeted and tailored approaches. It will take into account each state's political economy, using an enhanced differentiation strategy to address the specific roots of fragility, societal heterogeneity and inequality in access to services and opportunities. They noted encouraging results in Liberia, Sierra Leone and Zimbabwe, and welcomed increased efficiency in support of fragile states via the Bank Group's 11 fragile states offices. They recognized that there are big risks in operating in such circumstances when rapid action is required to stabilize a country, and supported the Fund's readiness to tackle and manage these risks.

2.15. Fragile states account for a fifth of the continent's people and a significant share of its poverty. Fragility is contagious as well as episodic – it calls for tailored support to diverse needs, built around dialogue, local ownership and the celebration of success. Fragile states are marked by a breakdown of institutions and processes. The challenge is for fragile states to access financing in order to rebuild after conflict. The Fund is one of the few channels providing funding to fragile states to create financial inclusion and rebuilding. The results of funding fragile states go deep, and in the long run they save donor taxpayers millions of dollars in the long run by preventing conflict now. The Fund will build the institutions of local and national government and provide infrastructure – roads, electricity, water and sanitation – and it will create and safeguard livelihoods and jobs.

2.16. The Participants considered that the Fund should address gender in Africa based on its perspectives as an on-the-ground based African institution, close to the projects and with an innate understanding of gender issues in Africa. It is working with RMCs to define appropriate

[4] Governance best practices are shared across borders with participating governments under APRM.

entry points for enhancing status and rights of women and girls in its interventions. The Fund's efforts to accelerate progress on gender during ADF-13 were noted, and the decision to appoint a Special Envoy was welcomed. Deputies, however, urged quick completion of the work on the Gender Strategic Framework and Action Plan. Increasing the capabilities and opportunities of women and girls can boost the productivity and participation of half the African population, creating social inclusion. A focus on knowledge, skills development and legal and property rights is the precursor to empowering women's enterprise. Women and girls bear significantly more than half of Africa's burden, while they also carry disproportionately high potential as generators of income.

2.17. The Participants encouraged the Fund to promote inclusive and green growth via agriculture and food security by adopting an enhanced value-chain approach that will have an impact on the 70% of Africa's people dependent on the land for their livelihoods. In a major departure from past approaches, the industrialization potential of agriculture and agro-processing is now being realized across the continent – for example in Nigeria and Ethiopia. The Fund will focus on targeted support for value addition through processing and market linkages to improve farm profits and incomes for enhanced productivity, along the continuum from subsistence to commercial agriculture. Deputies urged continued support, while accepting that this would be primarily through rural infrastructure and cooperation with other specialized institutions.

Transition to Green Growth

2.18. The Participants [ ] the gradual transition to green growth for the ADF is based on three pillars across areas of operational priority areas and of special emphasis: building resilience, better management of natural resources, and sustainable infrastructure.

2.19. The Participants [ ] the Fund's interventions will focus on a gradual transition to green growth by building resilience to shocks – economic, social or physical. The threat of food security creates vulnerability and exclusion. The meaning of security, whether food or energy, is threefold – availability, affordability and reliability. The Fund will support any projects that contribute to strengthening the agricultural value chain, notably roads, storage and food processing. For instance, in the Horn of Africa, the Fund is addressing famine by creating programmes for livestock management and water management.

2.20. To capture and deploy revenues for transforming the economy, better management of natural resources is key. The Participants [ ] the Fund will support projects endorsing the Extractive Industries Transparency Initiative, on managing forests, rivers and natural resources for local communities. By supporting such projects, the Fund will play a role in supporting the management of natural resources for local communities' revenue generation leading to jobs and inclusion.

2.21. The Participants [ ] the Fund will explore other sources of sustainable infrastructure like mass transport, wind and solar energy and effective use of trans-boundary waterways. For instance, good management of water sector resources enables green and inclusive growth. The development of the water infrastructure required for Africa presents a tremendous opportunity for international and domestic private involvement. Opportunities include provision of water supply, wastewater systems, waste management, and ecosystem services, as well as water storage for hydropower and food security. New approaches, systems and services will lead to an array of new businesses that will attract private participation.

2.22. In transport, the Fund will focus on delivering systems to deliver inclusive sustainable infrastructure within a green growth approach. It will target three key criteria: social inclusiveness, economic effectiveness and environmental sustainability. The Fund has already begun the new approach by engaging with countries to build countries' upstream capacities to plan and implement climate resilience (e.g. Mozambique), and by developing sound knowledge products that enable effective dialogue with government on green development. In the context of rapid urbanization, the transport department is increasing its focus on mass rapid transport solutions for cities such as Abuja, Dar es Salaam and Nairobi.

2.23. In energy, the new Energy Sector Policy outlines the vision for the sector as sustainable, cleaner and offering universal access to modern, affordable and reliable energy infrastructure and services, as well as its plans to assist in developing a socially, economically and environmentally sustainable sector in RMCs. Accordingly, the ADF-13 pipeline has a significant number of sustainable energy-generation and interconnection projects that will allow regional use of resources such as hydropower, including CLSG (Côte d'Ivoire, Liberia, Senegal and Guinea) in West Africa and Ethiopia–Kenya in East Africa.

2.24. The Participants [ ] that the Green Growth Framework of Development entitled Enabling Sustainable Development Pathways in Africa. This aims to operationalize the Bank Group's goal of implementing sustainable development. Africa's development needs to be prepared for and adapt to global and local changes in environmental and socio-economic spheres. While the world has faced fiscal cliffs, countries must work together to prevent "climate cliffs". The dialogue on green growth between the Bank Group and the RMCs at the poverty reduction strategy planning process and the Country Strategy Papers (CSPs) dialogue are a critical entry point. For instance, its work in Sierra Leone led to a new Poverty Reduction Strategy Paper on "A Strategy for Inclusive Green Growth". The Participants [ ] green growth offers significant scope for private sector participation and for leveraging private sector opportunities for green growth and noted and encouraged the Fund's increasing work in this domain.

Operationalizing Strategy for 2013–22

2.25. Operationalizing the Bank Group's Strategy for 2013-2022 will primarily involve defining the initiatives to implement it in accordance with the Bank's work breakdown structure at complex level while addressing all of the programs associated with the various strategic prerogatives and major initiatives underneath those programs (budgets, resources, timelines, deliverables, accountability structures, etc.). To guard against strategic drift, three-year rolling programs and results-based budgets will set out operational and institutional plans for each three-year period, along with the resource requirements and expected results. Each year the Board will approve the three-year rolling program but release the budget only for the first year.

2.26. At the heart of that process will be a revamped indicative operational program (IOP)—the tool that aggregates the Bank Group's operations lending and non-lending activities. Guided by the Strategy's objectives and priorities, Country Strategy Papers (CSPs) will be the basic planning and budgeting instrument for defining priorities and carrying out country programs. The CSPs will be developed in consultation with sector departments and key stakeholders following a revised format reflecting the strategic objectives in Strategy for 2013-2022. For their part, Sector strategies, serving as technical foundations for country programs, will ensure that the Bank Group keeps its comparative advantage in its core operational areas. Beyond translating the ten-year Strategy into operational plans, Management will, where necessary, re-align the Bank Group's structures and systems to the Strategy. All of this will be reviewed annually, in addition to a planned medium-term review of the Strategy to allow for any adjustments, where necessary.

2.27. Collectively, this arrangement will help ensure that the Bank's program remains selective and focused in the areas of its comparative advantage at country, regional, sector and corporate levels.

3. The Comparative Advantage of the ADF

The distinguishing feature of the ADF is its sole focus on the development of African countries

3.1. The Participants [ ] that the Fund's sole mandate is Africa, and its full-scale presence on the ground—leadership, staff and headquarters—increases its effectiveness and provides a deep understanding of the characteristics of the continent, least developed countries, and fragile states. Many staff come from the countries and communities where the ADF works and have lived through the development challenges; they speak the languages and understand the cultures; they bring knowledge of the institutional and societal history of Africa. All are development professionals who share a passion for the continent. And the growing presence in Regional Member Countries or RMCs (34 outside of Headquarters and the Temporary Relocation Agency) further enhances its understanding of the continent's political economy, especially in fragile states.

3.2. The Participants [ ] the Fund's Africa focus allows it to better address politically sensitive issues across RMCs and enables it to create nuanced programs of support and knowledge products in close partnership with them. Its work is supported by the Bank Group's insightful economic and regional reports on infrastructure and growth. These products support and enhance the Fund's funding operations and mobilization for these countries. In addition, the Bank Group is on the cutting edge of African research—see, for example, the African Economic Outlook 2012 on youth employment, The Making of the Middle Class in Africa on the growth of the middle class, Poverty and Inequality in Tunisia, Morocco and Mauritania on country-level inequalities and poverty and Illicit Financial Flows and The Problem of Net Resource Transfers from Africa (1980-2009) a recent joint study on Africa's illicit outflows. This growing research underlies the Fund's tremendous knowledge base and convening power for Africa and partnership initiatives.

3.3. By supporting the ADF as Africa's fund, the Deputies [ ] the Bank Group's role as a strong global voice for Africa at the G20 and G8, and an integral regional partner for Africa with the African Union (AU) and United Nations Economic Commission for Africa (UNECA) on Africa's transformation, especially on development finance and economic matters. It is a respected African voice for the continent. Respect from African governments and a high level of access means that it is well placed to be a leader in policy dialogue, particularly on regional – and sensitive and difficult – issues.

3.4. In its role as the Fund for Africa, the ADF also has considerable potential to drive and influence specific African and regional development outcomes in the continent. In January 2013, the Bank Group joined the AU and UNECA in developing an African-led transformation agenda for the next 50 years.[5] With these two bodies, it is preparing the African Mining Vision for better managing natural resources in transformation. It convened Africa-wide consultations on the Post-2015 world in March 2013 in Tunisia to draft a common African position.

3.5. The Fund has the significant benefit of working within the One Bank integrated approach where its different windows of AfDB, ADF and NTF, its public and private sector teams, as well as special initiatives and trust funds, all work together under one management structure. Country teams meet to discuss public and private sector operations and capture them in Country Strategy Papers. Due to this integrated support, the Fund has an exceptional ability to work across the operations value chain, seeding, nurturing and financing public and private projects. Donors are provided with end-to-end solutions by the Bank Group in initiating, preparing, structuring, hosting and implementing for Africa in climate finance, small and medium-size enterprise development, and more. The ADF projects benefit from one of the most comprehensive environmental and social safeguards and supervision systems in Africa, which helps mitigate environmental and social impacts, ensures extensive community consultations, gives appropriate advice to project developers and resettlement with fair conditions.

3.6. Financing for Africa through collective contributions to the ADF enables donors to achieve multilateral leverage and economies of scale to do big projects in Africa. The Fund has repeatedly demonstrated over past ADF cycles that it can achieve credible and complex transformational projects. Under a multilateral approach, donors get a seat at the table with several co-financing partners. The ADF provides an innovative source of partnerships encompassing all significant financiers for Africa. It leverages its resources by being a lead arranger in transactions for public and private projects, helping to get together other donors and financiers. An analysis of 2012 AfDB/ADF public projects found that one UA from the Bank Group leveraged three UAs in co-financing and created a multiplier effect of 4.8 units of account (see table). A recent review of the Bank Group's portfolio highlighted that each UA of private sector financing from the AfDB generates on overage five or six UAs of total investment.

3.7. The Bank Group defines Value for Money (VfM) as achieving the maximum development impact in RMCs, while making the best use of its resources. The context of the ADF is more challenging than that for other multilateral development channels: it operates in a uniquely difficult landscape with a high share of low-income countries, fragile states and fragmentation. All staff of the Bank Group are based and operate in Africa.[6] Yet the Fund demonstrates its resilience in sustaining a high-performing, growing portfolio, delivering more results.

[5] The leadership of these African institutions noted as we commemorate the 50th Anniversary of the AU in May 2013: "We have agreed to engage with Africa's leaders and peoples in articulating and preparing such an African led transformation agenda for the next 50 years. We shall pursue this discussion in the upcoming African Union meetings and through consultations with Regional Economic Communities, Partners and other stakeholders to realize the vision of the African Renaissance."

[6] And one Japanese External Representative Office in Tokyo.

3.8. The Fund will operate under the new approved People Strategy which has four priorities on leadership; performance and accountability; employee engagement and communication; and workforce of the future. It energizes the Fund to position itself to deliver the Strategy for 2013–2022 with a productive and contemporary work environment. It is rearticulating its employee value proposition to become the Employer of Choice for those working on African growth and development.

3.9. The ADF is decentralizing and creating efficiencies in reaching clients. Just above one third (36%) of the Bank Group professional staff are now in the field, up from 15% in 2008, enabling more than 40% of project operations (country and regional) to be managed from the field. There are greater devolution of powers through the revised Delegation of Authority Matrix to field offices.

4. Institutional Effectiveness and Efficiency

4.1. Deputies recognized the important reforms undertaken in recent years.

4.2. They urged the Bank Group to make further progress in institutional effectiveness, efficiency and value for money.

4.3. Deputies highlighted that due to the attention that Parliaments on institutional effectiveness and value for money that the Bank Group needed to demonstrate its efficiency even more strongly.

4.4. They supported the current efforts to improve staff management, and were pleased to learn of the steep decline in vacancy rates to around 8%.

4.5. They encouraged Management to continue improving staff capacity, especially in field offices and notably in fragile states.

4.6. Management will produce a matrix showing the progress of work on corporate efficiency and effectiveness for the second replenishment meeting.

5. Managing for Development Results

5.1. Deputies underlined the importance of the Bank Group showing clearly not only the results achieved under existing ADF, but also what it could achieve under each of the financing scenarios proposed for ADF-13.

5.2. Management will produce a new Results Measurement Framework (RMF).

5.3. Deputies noted the importance of the work of the independent evaluation department and, specifically, of impact evaluation. A presentation will be made by the Bank Group's independent evaluation department at the second replenishment meeting.

6. The Bank Group's Engagement with Fragile States

6.1. Deputies welcomed the Bank Group's enhanced support since 2008 and stressed the importance of the Fragile States Facility, while noting that the findings of the latest evaluation suggested that improvements in management and delivery were needed.

6.2. Management informed Deputies of action taken, including the transfer of the Fragile States Unit to the Office of the Chief Operating Officer, and the transfer of operational activity to the various country teams. It indicated that it was taking full account of the approach set out in the "New Deal" put forward by the G7+ group of fragile states and endorsed at the Busan High-Level Forum. Strong support was expressed for further deepening engagement, and for sustained support so as not to lose the gains made.

6.3. Deputies stressed the importance of good local coordination, which required local presence and well-trained staff. They supported fuller attention to regional dimensions of conflict and fragility. They recognized that speed of response, as argued by President Sirleaf,7 was often essential but that associated risks must be assessed and tackled. They supported Management's intention to improve operational effectiveness in fragile states.

6.4. Management agreed to examine the rules, procedures and risk management of the Bank Group with a view to increasing the flexibility and accelerating the response to fragile states.

6.5. There was broad agreement on the need to revisit the definition of fragility – currently set by a somewhat arbitrary Country Policy and Institutional Assessment (CPIA) score – and methodologies for assessing fragility. This revision should take place in consultation with other organizations.

6.6. Fragile States Facility: Deputies expressed strong support for continuing it and its three pillars:

- *Pillar I*: [agreement was expressed with Management's proposal to discuss in more detail options for eligibility criteria and resource allocation, and for a framework for phasing out access to this Pillar]
- *Pillar II:* [It was agreed to discuss the demands on this Pillar, and any necessary action during the second meeting]
- *Pillar III:* [Deputies underscored its importance for capacity building and technical assistance and urged management to continue improving implementation of Pillar III]

6.7. The President confirmed that initial findings and recommendation from the High-Level Panel would be provided to Deputies for their final meeting. The Report of the Panel would also inform a revised Bank Group strategy to go to the Board in 2013 for implementation in 2014.

6.8. Management agreed that the application of a "fragility lens" beyond states categorized as currently fragile was not yet universal but that increasing attention was being paid to this. CSPs will be modified to reflect the drivers of fragility as well as sound political and economic analysis.

7. Resource Allocation, Financial Terms and Financing Instruments

7.1. Deputies stressed that performance must remain central to ADF's system of allocating resources. They expressed strong support for Management's efforts to improve the performance-based allocation (PBA) system, and urged that the system be as simple, transparent and comprehensible as possible, and built on sound and accessible data. They urged consultations with other multilateral development banks during the system's revision, and that the Bank Group's system remain fully coherent with that of other such banks, while not necessarily identical.

7.2. Deputies agreed that there should be an increase in the minimum allocation (Option 2), certainly to UA 10 million. For a higher increase, Management should put a specific proposal backed by suitable evidence to the second meeting.

7.3. Several Deputies expressed support for the alignment of the PBA system with the Bank Group's mandate as set out in the Strategy for 2013–2022 (Option 1) but it was agreed that this needed to be done without reopening the CPIA itself: further work was needed for the second meeting on the analysis, including the case for a proposed infrastructure index.

7.4. Mixed views were expressed on the population and gross national income exponents (Options 3 and 4): Deputies agreed to consider further in the light of an outcome on Option 1.

7.5. [Deputies considered that recognition of the special problems of fragile States should be made within the context of the Fragile States Facility and not the PBA, thus rejecting Options 5 and 6.]

[7] In the first ADF-13 replenishment meeting on 21 February, 2013 in Tunis.

8. ADF-13 Financial Management and Replenishment Framework

8.1. Deputies agreed that the exchange rate reference period should be 1 February to 31 July 2013, that the 10-year encashment schedule should remain in place (with provision for voluntary acceleration as at present), and that accelerated encashments should be fully hedged.

8.2. Delegates favoured hardening ADF's standard lending terms on the lines of Management's proposal to reduce maturities from 50 to 40 years, still with 10 years' grace. Most also supported Management's proposal to divide ADF recipients into more and less advanced, with the more advanced having somewhat harder terms (Management had proposed reducing the grace period to five years). Deputies emphasized that the debt sustainability framework must be fully respected and the implications of the different options (lending terms) on this framework should be considered.

8.3. Several Deputies expressed a preference (in some cases strong) for any division among ADF-only borrowers to be based on gross national income per head rather than on the African Human and Infrastructure Development Index as proposed by Management. Deputies wished to see the maximum possible alignment with the International Development Association (though not necessarily identical). They noted that the International Development Association's own position was under review and might become clearer in late March. In light of these various considerations, Deputies agreed to revert to the issue of loan terms at their next meeting.

8.4. Deputies agreed on introducing an accelerated repayment clause prospectively and a voluntary repayment framework. However they stressed that it was important not to inhibit graduation, and indeed to achieve engagement with the prospective graduating country to discuss its situation and, if necessary, to provide adequate incentives for it.

8.5. Deputies discussed in detail the assumptions that underlay Management's calculations of the Advanced Commitment Capacity (ACC). They requested further clarifications and reflections on the impact of loan cancellation policy. Deputies probed AfDB/ADF's cost-sharing administration and the impact of the return to Abidjan on ADF. On cost sharing, Management pointed out that the present arrangements, made in 2010, were based on a close analysis of actual costs. Cost shares in most multilateral development banks were broadly equivalent to the proportionate split between hard and soft windows, and in the case of the Bank Group 72% of countries were benefiting from the concessional window and 28% from the AfDB window, which indeed came fairly close to the cost shares in use.

8.6. Deputies also raised the question of transfers from the Bank Group to the ADF, and requested information on likely future transfers, taking account of the net income model. They fully recognized that in any event it was essential to ensure that the Bank Group remained financially sound (and maintained its AAA credit rating).

8.7. Management indicated that the issues around the return to Abidjan would be discussed at Board level. President Kaberuka gave the Deputies his personal assurance that the Bank Group would remain operational and effective during its move back to Abidjan, and the Minister of State of Côte d'Ivoire confirmed the high priority that his government gave to a smooth transfer.

8.8. Deputies questioned the liquidity policy of the Bank Group. Management advised that it planned to look at the definition of eligible liquidity to see if there was any scope for adjustments that would improve the ACC.

8.9. Management agreed to provide a technical note on the ACC calculation for the next meeting, while stressing that the precise level of the ACC could be confirmed only at the time of the replenishment itself.

8.10. Deputies welcomed Management's paper on innovative financial products. Deputies stressed that in assessing options the following should be looked at, as well as the potential multiplier effect: (i) likely demand for the product; (ii) administrative costs for each option; (iii) debt-sustainability consequences where relevant; and (iv) concern that too many or too large set-asides could undermine the PBA approach. Management agreed to present a more detailed set of proposals reflecting the discussion, including advice from legal counsel on relevant options.

9. Mid-Term Review

9.1. [ ]

10. Selection of ADF-14 Coordinator

10.1. [ ]

11. Recommendations

11.1. [ ]

Annex I: Upcoming Bank Group Strategies

A. COMING SOON

Approved	**People Strategy** **African Development Bank**
Draft Document	***One Billion Opportunities: Building Human Capital for Inclusive Growth in Africa*** **AfDB Human Capital Development Strategy**
Draft Document	***Enabling Sustainable Development Pathways in Africa*** **AfDB's Green Growth Framework**
Draft Document	**Knowledge Strategy** **African Development Bank**
Draft Document	**Private Sector Development Strategy** **African Development Bank**

B. SAVE THE DATE – Future strategies

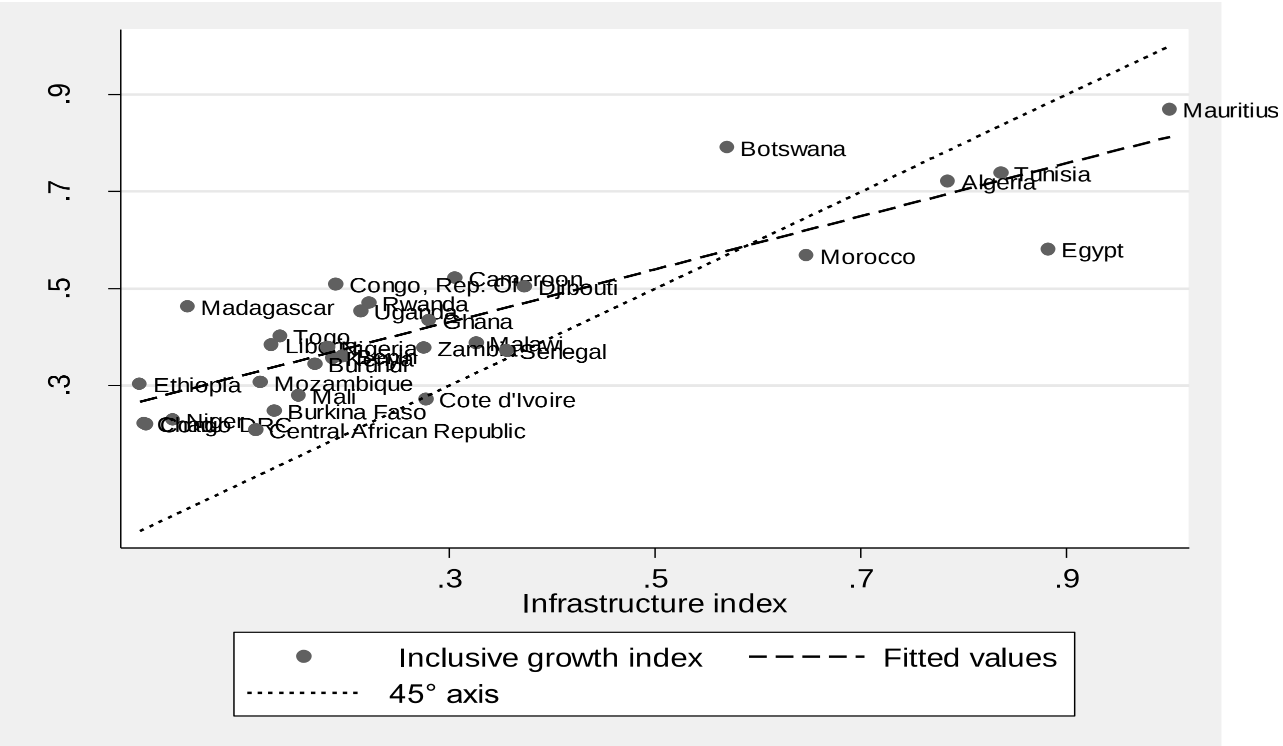
Energy Strategy
Urban Water Strategy
Rural Water Strategy
Gender Strategy
Governance GAP II
Regional Integration Strategy
Road Strategy

Annex II: Innovative Inclusive Growth Index and Africa Infrastructure Development Index

Management outlined the AfDB Inclusive Growth Index to rank African countries on their achievements on inclusive growth. It is an innovative first attempt to quantify the progress that RMCs have made with inclusive growth along four dimensions (economic, social, spatial and political). The high correlation between the Inclusive Growth Index and the Africa Infrastructure Development Index (see next paragraph) confirms that inclusion goes hand in hand with spatial connectivity – and reconfirms the importance of the Fund's work in infrastructure.

Management also described the AfDB Africa Infrastructure Development Index with innovative quantitative indicators of Africa's development. The purpose of the index is to monitor the status and progress of infrastructure development. The index cuts across all key components of infrastructure (including ICT) and includes: net electricity generation; phone subscriptions (mobile and fixed); roads; access to water; and access to sanitation. As with other benchmarking instruments, it points out strengths and weaknesses of particular countries and informs the Bank Group's operations. Based on knowledge and research work at the Bank Group, staff measured inclusive growth that does not include infrastructure at all and found high and significant correlation with the Bank Group's infrastructure index. The better a country's infrastructure, the greater the potential for inclusion. The correlation coefficient is strong between the Africa Infrastructure Development Index and the Inclusive Growth index at about 0.87 with an elasticity value of about 0.82.[8]

Figure II-1: Infrastructure index and inclusive growth index for African countries



Source: *Abbes Shimeles. AfDB Development Research Department. 'Performance Based Allocation (PBA's) as a Vehicle for Inclusive Growth'. 2012.*

[8] Abebe Shimeles. AfDB Development Research Department. 2012. *'Performance Based Allocation (PBA's) as a Vehicle for Inclusive Growth'.*

Annex III: ADF-13 Institutional Effectiveness Implementation Matrix

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Annex IV: The ADF-13 Results Measurement Framework

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Annex V: Classification of Regional Member Countries

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Annex VI: Performance-based Allocation Framework for ADF-13

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Annex VII: Key Elements of the ADF-13 Financial Framework

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Annex VIII: Strategic and Operational Framework for the Innovative Financial Instrument(s)

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