



Supporting Africa's
Transformation

AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

ADF-13 2nd Replenishment meeting

ADF-13 Resource Allocation Framework

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40 Years
of
Results

OVERVIEW

1 Context and Rationale

2 Proposals

Performance-Based Allocation System

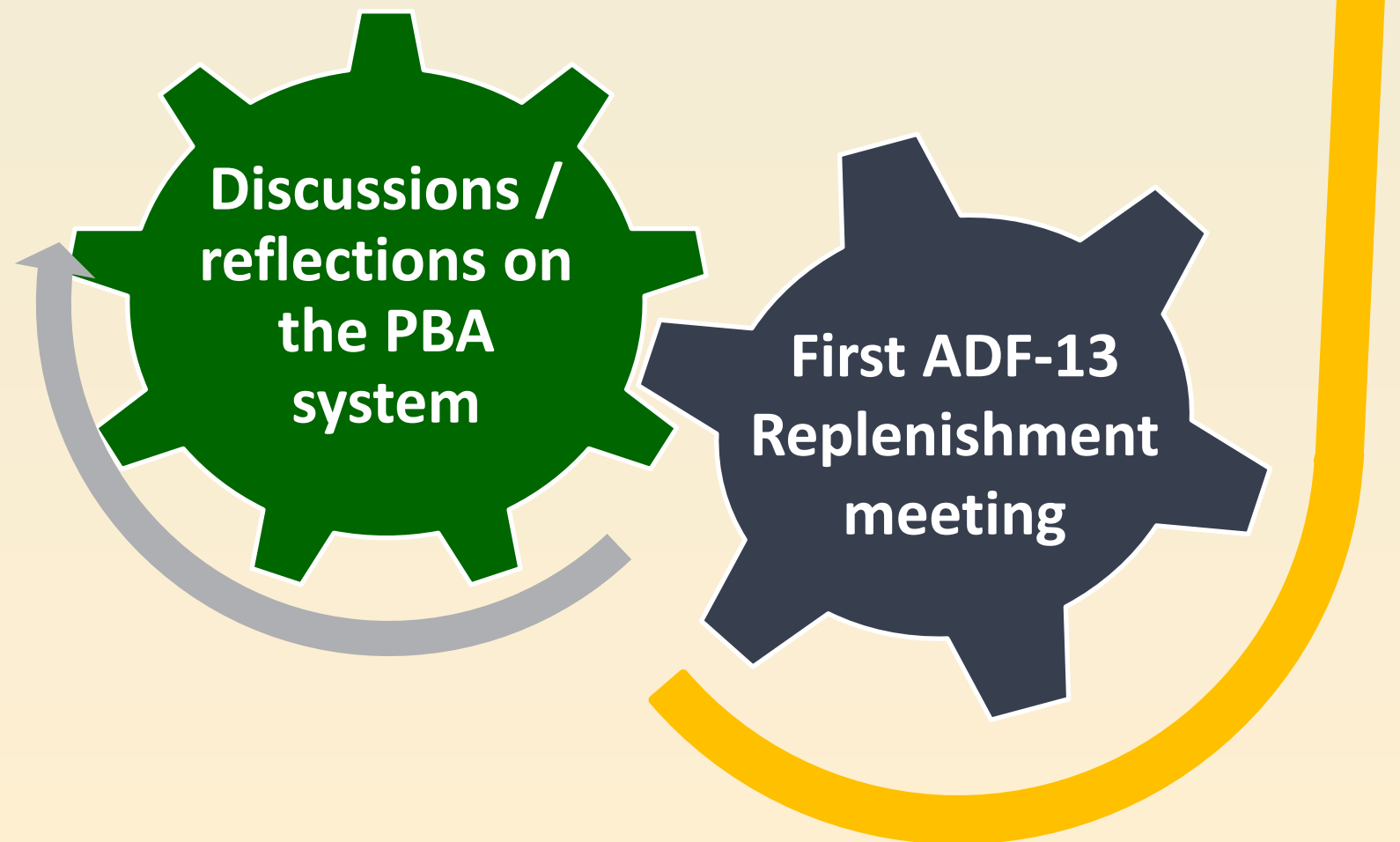
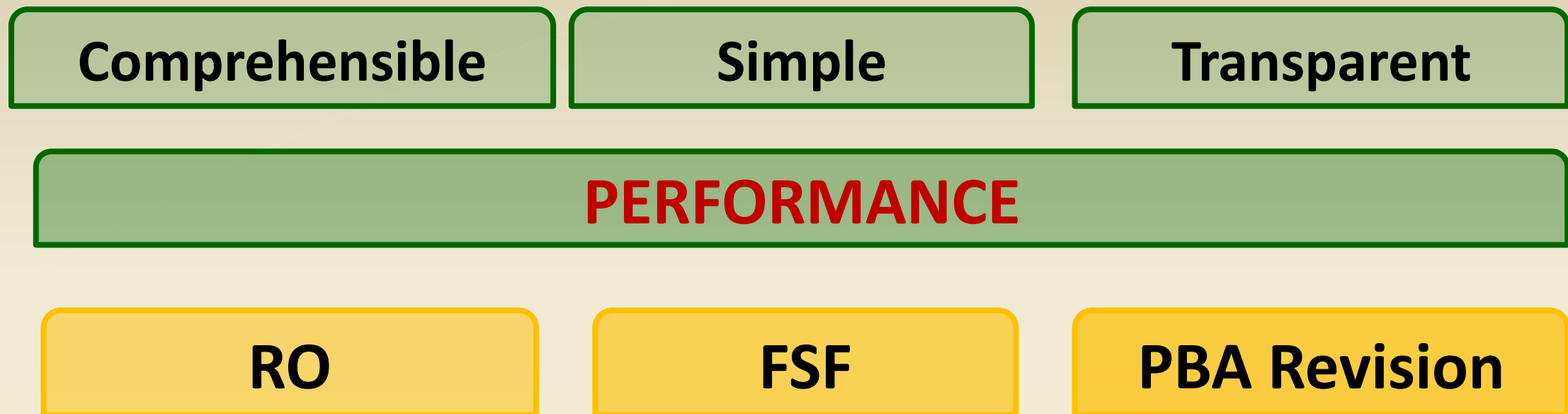
Fragile States Facility

Regional Operations Envelope

3 ADF-13 Resource Allocation Scenarios

4 Conclusion and recommendations

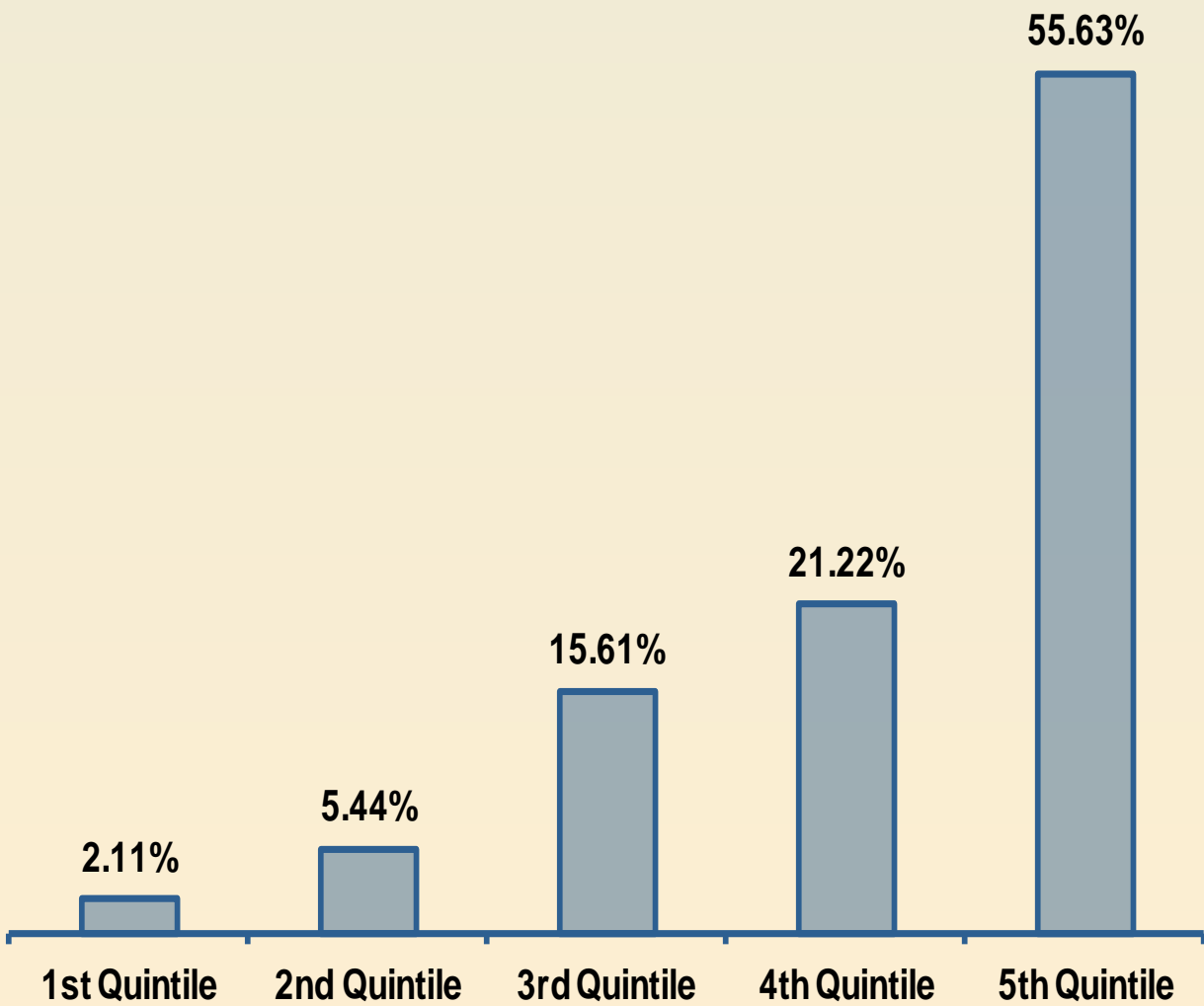
1 Context and Rationale



Increase the minimum allocation up to UA 15 million

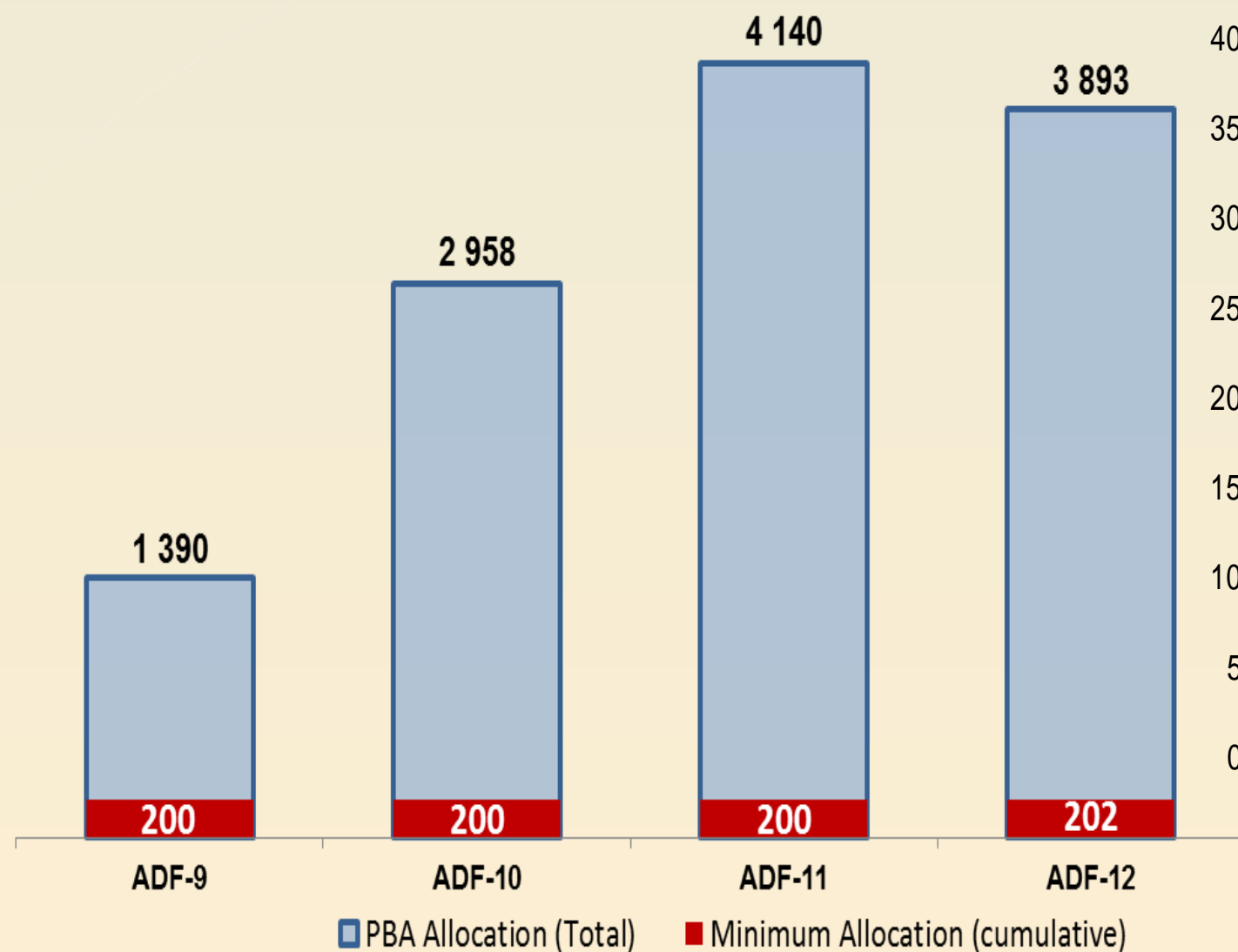
- 1. High dependence of small population countries
- 2. Constraints to financing large projects

Share of the Minimum allocation in PBA Resources per Population Quintile (ADF-12)



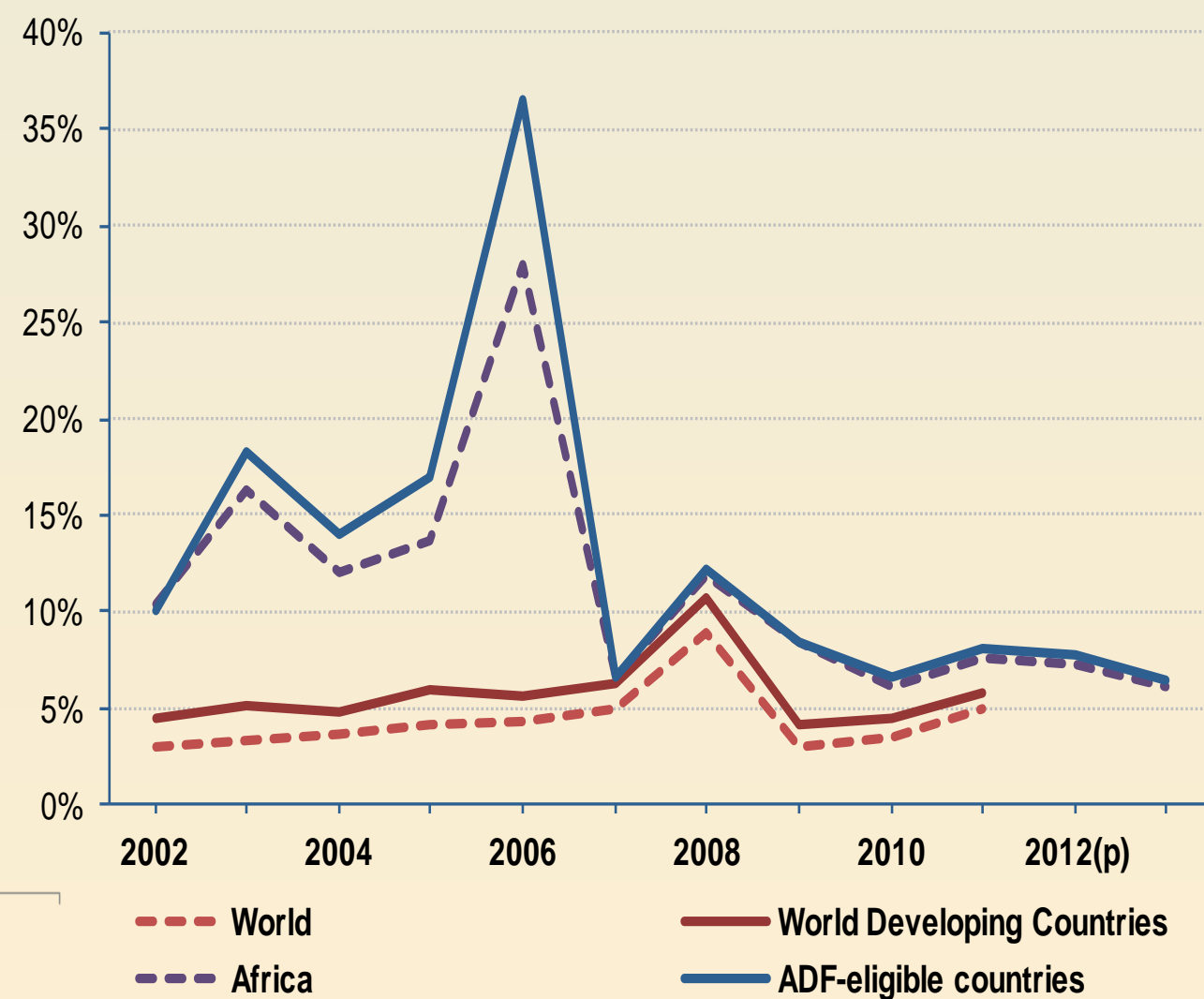
3. Unchanged minimum allocation

Evolution of the PBA Envelope (UA million)



4. Eroding effect of inflation

Evolution of inflation (2002-2013)



Add a CPIA cluster “E” and introduce the AIDI

Cluster E - Performance Component

- Infrastructure Dev. and Reg. Integration
- Coefficient of **0,06** in the PBA formula
- No change to clusters A, B, C and D
- No change to weight of Governance and PPA

AIDI – Needs Component

- Access to: Transport / Electricity / ICT / Water & Sanitation
- Exponent of **-0.25** in the PBA formula



Enhancing policy dialogue with RMCs

Table of Contents

1. Introduction	1
2. Why do we need an Infrastructure Development Index?	4
3. Methodology	5
4. Main Results	5
4.1 Country by Country Analysis	5
4.2 Subregional Analysis	10
5. Conclusion	12
References	12

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1. Introduction

Infrastructure development is a key driver for progress across the African continent and a critical enabler for productivity and sustainable economic growth. It contributes significantly to human development, poverty reduction, and the attainment of the Millennium Development Goals (MDGs). The Africa Infrastructure Country Diagnostic (AICD) results show that investment in infrastructure accounts for more than 50 percent of the recent improvement in economic growth in Africa, and that it has the potential to achieve even more.

In spite of its enormous mineral and other natural resources, Africa has the lowest productivity of any region in the world, and this is largely attributable to serious infrastructural shortcomings across all the subsectors: energy, water, sanitation, transportation, and communications technology. The international community at the G8 Summit of 2005 pledged significant support for the infrastructure sector. This was in recognition of the fact that Africa's weak physical infrastructure base was impeding the region's progress toward improved living standards, poverty reduction, domestic and international trade and investment, and socially inclusive GDP growth.

Recent research has also emphasized the catalytic effects of infrastructure development. The Commission on Growth and Development's *Growth Report: Strategies for Sustained Growth and Inclusive Development* (2008) highlighted infrastructure investment as crucial to both structural transformation and export diversification. Stern (1991) showed how adequate infrastructure is essential for productivity and growth, indicating that transport in particular is a driver of development. In the same vein, the findings of Anyanwu and Erhijakpor (2009) indicate that road infrastructure significantly reduces poverty in Africa. Recent studies by Canning and Pedroni (2008) and Egert, Kozluk, and Sutherland (2009)

also confirm the positive correlation between improved infrastructure and economic growth.

Despite robust economic growth rates of over 5 percent per annum over the past two years, the World Economic Forum's *Global Competitiveness Index 2012–2013* confirms that Africa remains the least competitive global region. Inadequate infrastructure is cited as the third most serious constraint to doing business in the continent, after access to finance and corruption. This demonstrates the close linkage between infrastructure and the region's competitiveness. Moreover, the Africa Progress Panel, composed of such distinguished members as Kofi Annan, Michel Camdessus and Peter Eigen, has ranked infrastructure development as a key priority for the advancement of the continent, and has urged the G20 leadership to continue to give it their highest support.

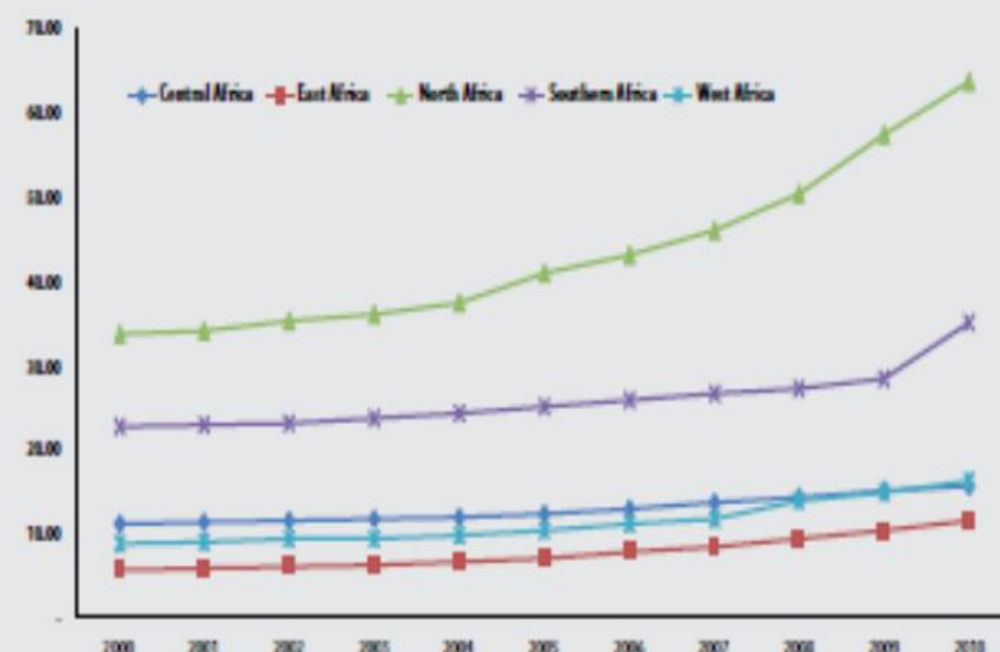
It is against this background that the AfDB developed the Africa Infrastructure Development Index (AIDI) to monitor the status and progress of infrastructure development across the continent. The first edition of this index was published in April 2011 and the present bulletin extends its coverage. The Infrastructure Index has now been updated and expanded to cover the period 2000–2010. This series of observations was based on data collected under the Africa Infrastructure Knowledge Program (AIKP), which is hosted by the African Development Bank (see <http://www.infrastructureafrica.org/>), as well as on other data sources.

The AIDI is based on four major components: (i) Transport; (ii) Electricity; (iii) ICT; and (iv) Water & Sanitation. These components are disaggregated into 9 indicators that have a direct or indirect impact on productivity and economic growth (see table below). Results for these indicators for 2000–2010 are provided at the end of this brief.

Table 2: Africa Infrastructure Development Index, Region Scores and Rankings, 2000–2010

	2000	2001	2002	2003
1 North Africa	33.64	34.16	35.19	35.98
2 Southern Africa	22.80	22.88	23.02	23.60
3 Central Africa	11.13	11.35	11.55	11.67
4 West Africa	8.72	8.90	9.27	9.37
5 East Africa	5.57	5.72	6.01	6.27
	2004	2005	2006	2007
1 North Africa	37.48	40.99	43.18	46.18
2 Southern Africa	24.33	24.99	25.89	26.59
3 Central Africa	11.98	12.27	12.83	13.61
4 West Africa	9.82	10.42	11.08	11.81
5 East Africa	6.58	7.04	7.87	8.46
	2008	2009	2010	
1 North Africa	50.46	57.49	63.80	
2 Southern Africa	27.15	28.50	35.15	
3 Central Africa	14.33	15.13	16.26	
4 West Africa	13.95	14.94	15.70	
5 East Africa	9.27	10.33	11.58	

Figure 4: AIDI Subregional Scores, 2000–2010



The proposed new PBA formula will look like this:

$$A_i = (CPA_i)^4 \times \left(\frac{GNI}{P} \right)_i^{-0.125} \times P_i^1 \times AIDI_i^{-0.25}$$

$$CPA_i = 0.20 CPIA_{(ABC)_i} + 0.58 CPIA_{D_i} + 0.06 CPIA_{E_i} + 0.16 PPA_i$$

Like other MDBs, we seek to ensure a better alignment of the PBA with our operational priorities, while preserving its core principle:

→ performance as bedrock of the system.

The package of those measures will result in:

Key elements of the formula remain unchanged: Governance, quality of portfolio as well as Population and GNIpc

More comprehensive assessment of countries' performance and better alignment with Fund's operational priorities

Broader and better dialogue on policies, institutions and infrastructures needs with RMCs

More than two-thirds of PBA resources (67,02%) continue to go to the top performing countries (16)

More PBA resources to countries with a low level of infrastructure

More PBA resources to countries with small population

Fragile states well represented among the 25 countries who see their allocation increase

Objective:

- More **flexibility** and stronger **responsiveness** to emerging needs
- Sufficient resources for **arrears clearance** of eligible countries
- Address sources of fragility **both at country and regional levels**

The volume of ADF-13 resources required for the FSF will range from UA 831 million to UA 902 million.

- Pillar I: **UA 608 million - UA 678 million**
- Estimated gap for Pillar II: **UA 179.8 million**
- Pillar III: **UA 44 million**

2 Proposals: Regional Operations Envelope

Use of FSF Pillar I resources for regional operations

Differentiated multiplier:

- **2 times** for the countries eligible for FSF Pillar I
- **1.5 times** for other ADF recipients

Explore leveraging the RO envelope for policy reforms

For example, implementing **program-based operations** that combine the hard and soft aspects of regional integration

Exceptions to cost-sharing for countries with small allocations

Countries with small PBA allocations will be required to contribute up to **10% of their PBA** for **each regional project** undertaken

3 ADF-13 Resource Allocation Scenarios

ADF-13 Low Scenario + High FSF Scenario (UA Million)

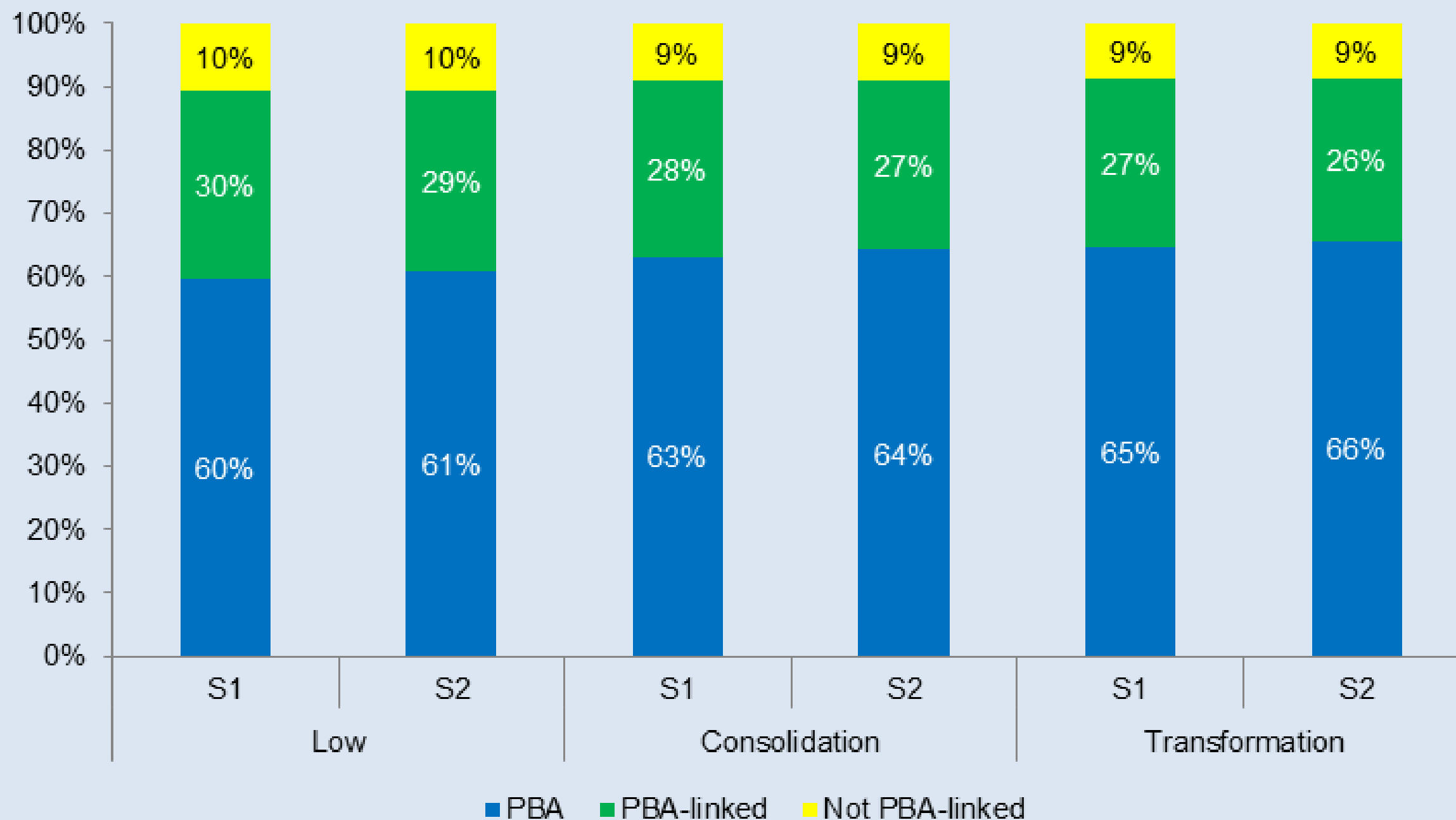


PSF



ADF-13 Transformation Scenario + Low FSF Scenario (UA Million)

Share of PBA resources allocated on the basis of performance remains around 90%



4 Conclusion and recommendations

PBA System

- Increase the minimum allocation to **UA 15 million** per cycle
- Add a new **Cluster E** with a coefficient of **0.06** and include the **AIDI** with an exponent **-0.25**

Fragile States Facility

- Pillar I: **UA 608 million** (Scenario 1) - **UA 678 million** (Scenario 2)
- Pillar II: **UA 179.8 million**
- Pillar III: **UA 44 million**

Regional Operations

- Allow FSF Pillar I allocations to **leverage RO envelope** funding
- For each regional project, countries with small PBA allocation should contribute to projects costs with max. **10%** of their PBA allocation
- Deputies' views on the use of the RO incentive mechanism to promote policy reform

Private Sector Facility

- Endorsement of the proposed **PSF set aside**
- Approve the amount of **UA 165 million** for the PSF (one-off)

Unused ADF-12 Resources

- Carry over to ADF-13 FSF the balance of **unused FSF Pillars I, II and III** resources
- Carry over to ADF-13 and fold into the allocable pool of ADF-13 PBA resources **unused resources in the PBA and Regional Operations envelopes**

Transforming Africa

