5/24/2013
9:19 PM

ADF-13 Three-Year Rolling Indicative Operational Program

Information Note

ADF-13 Second Replenishment Meeting
June 2013
Tunis, Tunisia

AFRICAN DEVELOPMENT FUND

Executive Summary

This note responds to ADF Deputies' request for additional information on the ADF-13 Indicative Operational Program (IOP).

The ADF-13 IOP consists of 258 operations worth UA 7.6 billion. It is fully aligned with the Bank Group's Strategy 2013-22. Slightly more than half of the IOP by value is programmed for regional operations. Moreover, in line with the ADF specific support to fragile states, 58 operations, worth UA 1.6 billion, are to support such countries. The ADF-13 IOP expected outputs range from over 11,000 km of power transmission and distribution lines, installed power capacity of close to 8,000 MW- a large share coming from clean energy-, over 10,000 km of newly constructed/rehabilitated roads and rural feeder roads, over 15,000 boreholes and wells drilled/rehabilitated, and 350,000 new enrolments in higher education and technical & vocational training. However, resources available in all three replenishment scenarios will not cover the IOP. Hence, the expected development outputs will have to be scaled down accordingly.

Table of Contents

Boxes

Abbreviations

ADF	African Development Fund
ADF-13	Thirteenth General Replenishment of the African Development Fund
IOP	Indicative Operational Program
PRG	Partial Risk Guarantee
PSF	Private Sector Facility
RMC	Regional Member Country
TVET	Technical and vocational education and training
UA	Unit of Account

ADF-13 THREE-YEAR ROLLING INDICATIVE OPERATIONAL PROGRAM INFORMATION NOTE

---

1. Introduction

1.1. This note responds to ADF Deputies' request for information on the ADF-13 3-year rolling indicative operational program (IOP). The note first quantifies the value of the IOP (Section II). It then provides evidence that the ADF-13 IOP is strong and aligned with the Bank Group's Strategy 2013-22 (Section III). The note also documents expected outputs of the IOP (Section IV) and is complemented by a statistical annex.

1.2. The ADF-13 IOP consists of 258 operations worth UA 7.6 billion, of which UA 4.0 billion is programmed for 101 regional operations, while UA 3.6 billion is for 157 national operations. Close to 60% of the IOP has been identified, prepared, appraised, or can be prepared very quickly. The IOP is well aligned with the Bank Group's strategic operational priorities. In particular, 58 operations, worth UA 1.6 billion, are to support fragile states. Proposed support for regional integration is slightly more than half of the value of the IOP.

1.3. Expected outputs from the IOP include infrastructural services ranging from over 11,000 km of power transmission and distribution lines, installed power capacity close to 8,000 MW- a large share coming from clean energy,10,000 km of newly constructed/rehabilitated roads and rural feeder roads, to over 15,000 boreholes and wells drilled/rehabilitated. The IOP also envisages specific support to fragile states in terms of institutional capacity building and addressing the causes of fragility. In addition, the IOP will result in over 350,000 new enrolments in higher education and technical & vocational education (TVET).

1.4. The ADF-13 Financing Framework paper contains three replenishment scenarios: low, consolidation and transformation[1]. From the onset, it is to be underscored that none of the three replenishment scenario meets the financing requirement of the estimated UA 7.6 billion IOP (Table I-2). The resources will cover respectively 69%, 84% and 92% of the ADF-13 work program in the low, consolidation, and transformation scenarios.

1.5. The low case scenario would severely limit the Bank Group's ability to respond to RMC's needs. In the consolidation case, although the Bank Group will not fully cover its IOP, the pace of development gains achieved during previous ADF cycles could be maintained. Under this scenario, ADF will finance almost all national operations but *less* than half of regional operations in the IOP. The transformational scenario will enhance ADF's capacity to contribute meaningfully to the ambitious objectives of the ten year strategy by financing transformational national and regional operations. In this case, all national operations will be financed as well as *more* than half of regional operations.

1.6. The low-case scenario will reduce the Bank Group's ability to finance high-impact transformational operations. The forgone development impact will be particularly severe in the core priority areas of regional integration and private sector. Among others, some transformational operations that are likely to be dropped include: ICT backbone connections in East and West Africa; transport improvement operations such as the Mano River Trade Corridor in West Africa; the Nacala Road Corridor/Luangwa bridge project in Southern Africa; power generation and interconnection operations in Central and West Africa; Ethiopia - South Sudan Transmission Interconnection; and a host of trade facilitation and regional integration capacity building operations. Moreover, ADF will not be in a position to finance a number of high priority regional food security, higher education, as well as water and sanitation interventions. In light of the increased emphasis on regional integration and private sector development in the ten year strategy, and the enhanced focus to address fragility from a regional angle, an insufficent ADF replenishment will break the momentum achieved during ADF cycles.

[1] Low Scenario: The ADF-12 subscriptions from donors are adjusted by the cumulative SDR inflation rate (6.84%); Consolidation scenario: subscriptions increase by 31% in nominal terms (23% in real terms) in order to attain a flat real growth in total ADF resources vis-à-vis ADF-12; Transformation scenario: subscription increase by 44% in nominal terms (35% in real terms) in order to achieve 10% real growth in total ADF resources vis-à-vis ADF-12.

2. ADF-13 IOP: Process, Size and Readiness

2.1. The ADF-13 IOP has been derived using the Bank Group's pipeline and IOP development procedures. The Bank Group's support to its RMCs is identified though Country Strategy Papers and Regional Integration Strategy Papers. Both Country Strategy Papers and Regional Integration Strategy Papers are the outcomes of a participatory process involving all stakeholders. Sector and regional departments collaborated in choosing which projects were included in the ADF-13 IOP.

2.2. Management has put in place measures to achieve a robust IOP. These include: (i) enhancing the role of Field Offices/Regional Resource Centers in pipeline and IOP development, (ii) intensifying dialogue with RMCs and development partners, (iii) implementation of the IOP readiness rules, (iv) establishment of an operational delivery support team to monitor and report on the IOP and lending program; and (v) Bank-wide consultations on the pipeline and IOP.

2.3. The ADF-13 IOP is worth UA 7.6 billion. This amounts to 46% of the total pipeline (UA 14.7 billion). The IOP includes UA 4.0 billion programmed for 101 regional operations and UA 3.6 billion for 157 national operations. Close to 60% of the ADF-13 IOP has been identified, prepared, appraised or can be prepared in a very short period of time (Annex Table I-1). This level of readiness is adequate to cover the first year of the ADF-13 cycle while the rest is being prepared.

2.4. Annex Figure I-1 shows the sector destinations of the ADF-13 IOP along the operational priorities of the 2013-22 strategy. In line with the Medium-Term Strategy priorities which underpinned ADF-12, and which have been carried forward in the 2013-22 strategy, infrastructure accounts for the bulk of the ADF-13 IOP, along with governance and skills and technology (Figure I-2). Improved infrastructure increases competitiveness and productivity, deepens economic and social integration, creates employment opportunities, and supports the delivery of social services. Similarly investing in irrigation infrastructure, rural roads and storage facilities, strengthens agriculture and food security, thus contributing to inclusive growth. The infrastructure need of the continent is currently estimated at over US$ 93 billion per year of required capital and maintenance expenditure, with an unfunded gap of US$ 45 billion.

2.5. However, none of the three replenishment scenarios cover the IOP (Annex Table I-2). Only 69% (low scenario) to 92% of the IOP (transformation scenario) will be achieved. It is noteworthy that under the transformation scenario countries will have to make greater use of their performance-based allocations (PBAs) to finance regional operations.

3. Core Operational Priorities

3.1. The Bank Group's 2013-22 strategy outlines five main channels for the Bank Group's support to RMCs towards inclusive growth and their gradual transition to green growth. These are: infrastructure development; regional economic integration; private sector development; governance & accountability; and skills & technology. In implementing the strategy, the Bank Group will pay special attention to gender, fragile states, and agriculture & food security. As in previous ADF cycles, ADF-13 resources will allow the Bank Group to leverage other external financing and play a catalytic role.[2]

3.2. **Infrastructure:** The bulk (75%) of ADF-13 IOP is for infrastructure development, almost equally split between national (39%) and regional (36%) infrastructure. ADF resources will also contribute to mitigate risks and expand long-term finance for infrastructure development. The sectors contributing to infrastructure are transport (30%), energy (22%), agriculture (12%), water supply and sanitation (10%) and ICT (1%). To bridge the financing gap in infrastructure in the continent, the Bank is exploring innovative solutions including infrastructure bonds and public-private partnerships. It should be underscored that regional infrastructure is a key driver of regional integration.

[2] See the ADF13 paper entitled '*The Comparative Advantage of the Bank Group*'. A recent analysis of ADB/ADF public sector projects has estimated a leverage effect close to 5.

3.3. **Regional integration:** The ADF-13 IOP includes UA 4.0 billion for regional operations. The IOP is informed by the Program for Infrastructure Development in Africa, which was agreed upon by the African Heads of States and Governments as a strategic framework of priority infrastructure projects to interconnect and integrate the African continent and provide the basis for economic transformation. ADF financing will be used to leverage resources for preparation and investment, as well as undertaking more activities on soft infrastructure accompaniment measures such as policy, legal and regulatory reforms. Resources are also required for analytical work notably in trade facilitation and strengthening institutional and regulatory capacities. Close to one-third of regional operations are pan-African.

3.4. **Governance and accountability:** ADF-13 resources for governance and accountability are needed to: (i) mainstream governance in the sectors key to the 2013-2022 strategy, (ii) build on the progress made in supporting public financial management reform during previous ADF cycles and continue supporting sound and transparent budget management, (iii) intensify efforts to strengthen governance of natural resources, (iv) promote employment creation through efforts to improve the business environment, and (v) increase the transparency and accessibility of information on the use of public resources to empower citizens engage with the state.

3.5. The ADF-13 indicative IOP includes 61 operations valued at UA 1.2 billion directly or indirectly supporting governance and accountability. As governance operations tend to be prepared and implemented over a short period of time it is possible that at the end of ADF 13 more operations of such a nature will have been approved. Key sub-sectors contributing to governance and accountability include: reform in public financial management, business enabling and investment climate, extractive industry governance, sector governance in infrastructure, and service delivery.

3.6. **Private sector development:** ADF resources will support private sector development through sovereign operations which include, but are not limited, to (i) policy reforms that create enabling conditions for the private sector, (ii) public sector investments that mobilize private investments and (iii) public-private partnerships. The draft Private Sector Development Policy seeks to ensure that the bulk of the Bank Group's interventions contribute directly to strengthening the private sector throughout the continent.

3.7. The ADF-13 IOP supports private sector development directly and indirectly. Indirect support includes enabling environment through public policy reforms. In this regard, 41 out of the 61 operations in the governance and accountability priority area indirectly support private sector development, although they may not be directly labelled as such. Furthermore, almost every public sector infrastructure operation strengthens the enabling environment for private sector development. Should the proposed Private Sector Facility (PSF) and the Partial Risk Guarantee (PRG) under ADF-13 materialize; the ADF will be in a better position to directly promote transformational infrastructure and industrial development in ADF countries through the private sector. The Bank has a robust pipeline of bankable projects worth more than UA 3 billion (not included in this IOP) that can be financed through the PSF or supported by PRG.

3.8. **Skills and technology:** ADF-13 resources are required for investment in skills for competiveness and to ensure that those skills better match the requirements of the labor market. To directly address youth unemployment and promote skills, the IOP contains 29 operations valued at UA 761million. In addition, many of the ADF 13 planned operations in the non-social sectors (e.g. energy and transport) will contribute to skills &technology development and address unemployment and human capacity building. It is expected that the ADF 13 IOP in skills and technology will benefit to close to 600,000 persons, 260,000 of whom will be women. In addition, 350,000 students, including 140,000 women, will have access to higher, or technical and vocational education. To help address unemployment among the youth, 19,000 business incubators will be established to foster entrepreneurship.

Areas of special emphasis

3.9. **Fragile States:** Sustained and deeper engagement with fragile states and fragility in general is critical for the Bank Group's inclusive growth objective.[3] The ADF13 indicative IOP includes 58 operations worth UA 1.6 billion that will support fragile states. Most of these operations seek to help build institutional capacities of these countries and in addressing the critical causes of fragility.

3.10. **Agriculture and food security:** ADF-13 resources are required to further strengthen agriculture and food security by investing in irrigation infrastructure, rural roads, and market & storage facilities. The current IOP includes 29 operations amounting to UA 957million as direct support to agriculture and food security. The Bank Group's operations in infrastructure, private sector and even skills and technology also indirectly support activities in agriculture. For example, energy expansion programs should spur agro-industry in rural areas.

3.11. **Gender:** The Bank promotes gender equality and empowerment through operations that deliver specific gender outcomes. These are typically operations that promote women economic empowerment, strengthen women's legal and property rights and enhance knowledge management and capacity building. More than half of the proposed ADF-13 IOP operations will contribute to this agenda. These are mainly projects in agriculture, education and health, access to clean water, better sanitation and basic infrastructure. Operations that promote cross-border trading and enhance communities' drought resilience will also significantly benefit women. The Bank is developing partnerships with specialized agencies to optimize focus on areas such as women's economic empowerment and legal status.

4. Indicative ADF-13 Outputs

4.1. This section provides a pointer to indicative expected outputs from the ADF-13 IOP. Consistent with the priorities of the 2013-22 Strategy, the ADF-13 IOP is characterized by a significant proportion of infrastructural outputs which have far-reaching socio-economic outcomes (Box 1).

4.2. **In infrastructure**, the ADF-13 IOP is expected to improve transportation in ADF countries through the construction/rehabilitation of over 10,000 km of roads and rural feeder roads. This will improve access for an estimated 20 million people. In ICT, 5 countries are to be connected to underway fiber-optic cables in Africa. The objective of the Bank Group is to extend ICT infrastructure to underserved areas and to expand regional/national ICT broadband infrastructure in the continent. The Bank will also support its RMCs to scale up their ICT applications in all sectors. The support in infrastructure will foster private sector development and improve service delivery.

Box 1: : Infrastructure interventions and social outcomes
Inclusive growth requires a multi-prong approach. The role of infrastructure as an enabler of inclusive growth is a good example. Access to improved infrastructure services improves health and education outcomes. Improved infrastructure also boosts economic growth, causing trickle-down benefits to the poor. For example, it is estimated that a 10% increase in paved roads as a percentage of total roads, leads to half a percentage point decline in the share of people living below the poverty line. Improved access to transportation, telecommunications and energy provides more opportunities for the poor to engage in productive activities. For example, the technological revolution is transforming the lives of many Kenyans through the evolution of homegrown innovations. The applications range from financial services benefiting the unbanked population, linking farmers with buyers, and monitoring patients' medication.

[3] The Bank Group is currently strengthening its approach to fragility. Such an approach underscores a regional approach to address fragile situations. Above all, it is hinged on a deeper understanding of the national and regional political economy and the specific drivers of fragility in each situation. See the paper on *Proposed Adjustment to the Bank Group's Engagement in Fragile States*

4.3. Energy interventions are expected to facilitate 2.2 million new connections benefiting close to 17 million people. Over 11,000 km of transmission and distribution lines, and about 125 distribution sub-station and transformers are expected to be installed. The IOP envisages several transformational renewable energy operations, in particular hydropower projects such as the Grand Inga Phase I (4,800MW) in the Democratic Republic of Congo. The IOP also envisages the provision of a PRG in Kenya to support private sector participation in the Menengai Geothermal Project. Complementing the generation operations are transmission and/or distribution projects. These range from country-specific projects such as Fula Rapids in South Sudan to the regional Cameroon-Gabon-Equatorial Guinea Interconnection that will lay the foundation for an integrated energy market in Central Africa. The Bank Group views access to basic, clean energy services as essential for inclusive growth and poverty eradication, as it has positive benefits in the areas of health, literacy, and equity.

4.4. The ADF-13 IOP includes activities in water and sanitation aimed at improving water supply service delivery, sanitation service delivery, and overall policy in rural and urban areas. An estimated 15,000 boreholes will be drilled/rehabilitated to increase access to clean drinking water. In addition, an estimated 30,000 km of transmission and distribution pipes will be laid in rural and urban areas to improve access to clean drinking water. Over 70,000 latrines will be constructed to improve sanitation service delivery. All these interventions will allow close to 4 million users to benefit from new or improved access to water and sanitation services.

4.5. **In regional integration**, the ADF-13 support will mainly be through infrastructure development where the Bank Group has a strong track record. As already indicated, close to 40% of regional operations in the IOP will support transport, while 29% will go towards energy. These operations will help develop transport corridors and unleash the development potential of the private sector. Apart from infrastructure, the IOP includes projects that will enhance the capacity of the Regional Economic Communities, and knowledge generation for effective regional integration. The operations are also geared towards supporting trans-boundary management of natural resources. Many of these interventions should benefit many Africans across national boundaries.

4.6. **In skills and technology**, the IOP envisages investment in higher education to better match supply and demand for skilled workers. Expected outputs include over 190,000 new enrollments in higher education (science, Technology, engineering and mathematics) and close to 150,000 new enrolments in technical and vocational education and training (TVET). The IOP also envisions establishment of close to 19,000 incubators for entrepreneurship development.

4.7. **In agriculture**, the IOP will result in an estimated 3,400 rural marketing and production facilities, over 40,000 ha of land with improved water management, training of close to 31,000 people in improved agriculture. These interventions will benefit over 4 million people.

4.8. The output for the ADF-13 **governance and accountability** interventions include increases in budget outturns of eligible RMCs, increases in domestic taxes as a share of GDP, improvements in the competitiveness and transparency of procurement practices, and increase in the number of countries with reductions in the time to start a business and customs clearance. The aim is to increase the Public Expenditure and Financial Accountability score from the current 3.1 to 3.35 and the Country Policy and Institutional Assessment from the current 3.5 to 3.75. Additionally, the target is to reduce the number of days for business start from 32 to about 25 days.

5. Conclusion

5.1. This Information Note has highlighted the salient features of the ADF-13 indicative operational program. The IOP is worth UA 7.6 billion. It comprises UA 4.0 billion in regional operations and UA 3.6 billion in national operations. The IOP is well aligned with the Bank Group's core operational priorities identified in the 2013-2022 strategy. Over 60% of the projects included in the IOP are at an advanced stage in the project cycle and would be ready for implementation once the resources are made available. However, none of the three replenishment scenarios will cover the IOP.

Annex I: Statistical Annex

Table I-1: Readiness of the ADF-13 IOP

Level of readiness	Number of Projects
Already appraised	1
Under preparation	16
Identified	59
Fast track preparation*	94
With basic information (under identification)	88
Total	**258**

Note: **These are projects that can be identified and prepared in a fairly short time. These include PBOs, institutional supports, studies and technical assistance.*

Table I-2: Operational Impact of the Replenishment Scenarios

(Millions UA)

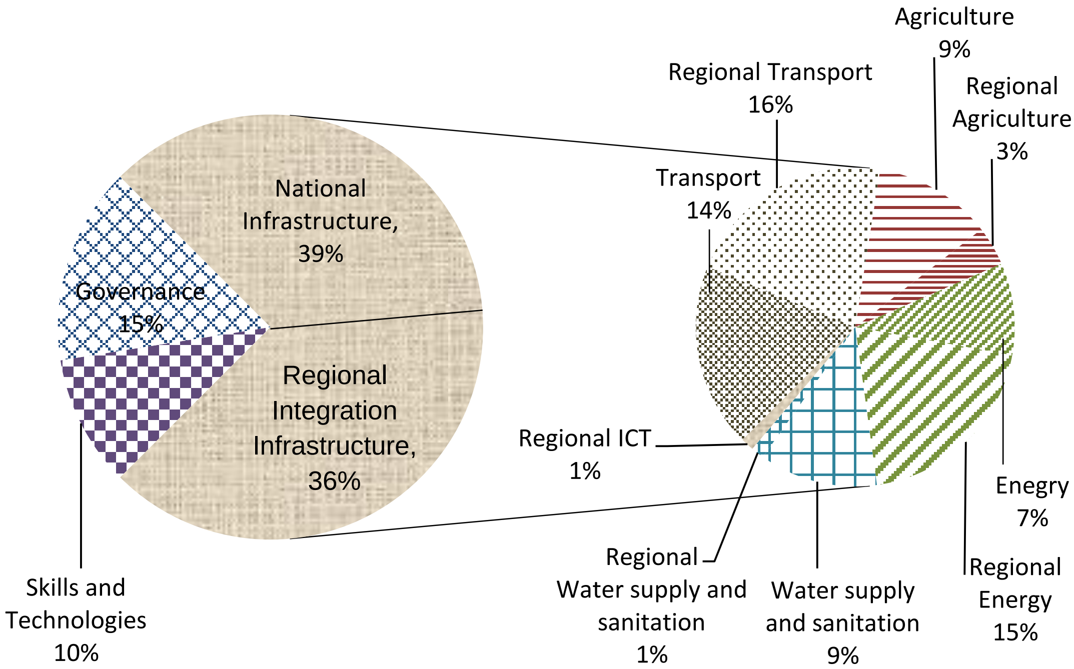
Parameter	Low Scenario	Consolidation Scenario	Transformation Scenario
ADF 13 Resources	**5,218**	**6,333**	**6,939**
Total IOP	7,566	7,566	7,566
Regional Ops. in the IOP	4,006	4,006	4,006
National Ops. in the IOP	3,560	3,560	3,560
Resources as a share of total IOP	68.97%	83.7%	91.71%
Number of projects to be dropped			
Multinational	58	46	43
National	44	8	6
Total	**102**	**54**	**49**

Note: *ADF 13 resources refer to gross resources available, plus the total carry-overs less total contingencies.*

The three replenishment scenarios are as follows. Low scenario: ADF-12 subscriptions from donors are adjusted by the cumulative SDR inflation rate (6.84%); Consolidation scenario: subscriptions increase by 31% in nominal terms (23% in real terms) in order to attain a flat real growth in total ADF resources vis-à-vis ADF-12; Transformation scenario: subscription increase by 44% in nominal terms (35% in real terms) in order to achieve 10% real growth in total ADF resources vis-à-vis ADF-12.

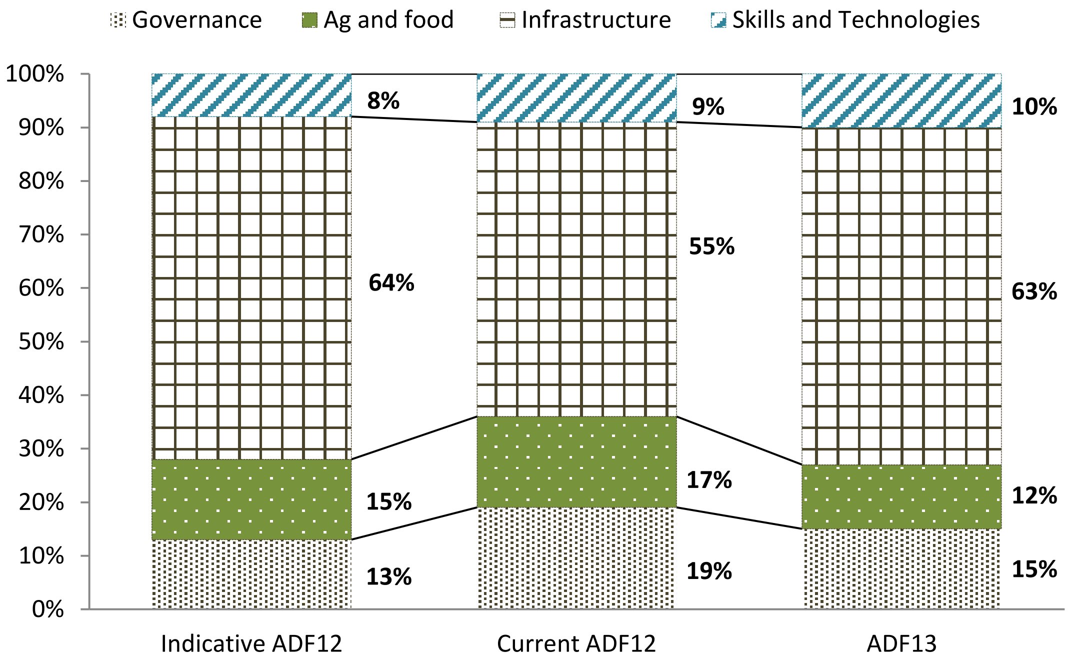
The projects to be dropped are based on the estimated shortfall in regional and national operations under each scenario. The criteria for dropping regional operations are whether a project is in the prioritized OPSCOM approved list and the readiness status. For national operations, the criterion is availability of 2013 ADF PBA/FSF pillar headroom and readiness status.

Figure I-1: Sector and regional composition of the ADF-13 IOP



Note: *Infrastructure is split into transport, energy, agriculture, ICT and water & sanitation. The right-hand side pie chart distinguishes for each sector the share of regional and national operations.*

Figure I-2: ADF-13 IOP by Priority Area



Note: *The share of infrastructure the ADF 13 IOP in Figure1 (75%) corresponds to the sum of the shares of infrastructure (63%) and agriculture & food security (12%) in the ADF 13 column in Figure 2. The percentage share of governance and accountability includes as indicated earlier, support of business environment improvement and all activities that enable private sector development. The shares in the column labeled Current ADF 12 correspond to approvals in 2011, 2012, first quarter of 2013, and operations which are expected to be approved until the end of 2013.*