



**AFRICAN DEVELOPMENT FUND**

## **ADF-12 Report**

***Delivering Results and Sustaining Growth***

ADF-12 Replenishment, Final Consultation  
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Tunis, Tunisia

## Executive Summary

Consultations for the Twelfth General Replenishment of the African Development Fund took place at a critical time for Africa and the world community. Africa's development needs remain enormous despite a decade of sustained progress and growth. Only five years before the 2015 target for achieving the Millennium Development Goals, Africa's growth is below the level required to reduce headcount poverty. Insufficient economic diversification, high population growth and an inequitable distribution of resources continue to curb progress in many countries, exacerbating their vulnerability to external shocks and amplifying social tensions. Meanwhile, the adverse impacts of climate change and the 2008-2009 economic and financial crises have added to the continent's vulnerability. Both African low-income countries and donors are struggling to make the best use of limited resources in the face of these exacerbated and competing demands.

Notwithstanding these challenges, years of sustained macroeconomic reforms, sound policies, fiscal prudence and substantial investments in poverty reduction and human development have renewed many countries' resilience; they are determined to forge ahead with development and reform. This determination is the foundation on which Africa's growth can regain momentum. Better economic governance is creating opportunities for substantial growth in foreign direct investment, regional and global trade, and private sector activities. Development assistance and dialogue can play an important role in accelerating Africa's progress by encouraging deeper governance reforms, catalytic interventions, and the efficient allocation and management of resources.

**ADF-11:** The optimism and the strong economic performance that put the continent on a promising development trajectory at the start of ADF-11 were quickly overshadowed by the 2008-2009 food, fuel and financial crises. The Fund responded flexibly, rapidly, and effectively to these challenges, maintaining its strategic focus and priorities while proving its critical role as a financier for Africa's development. The ADF-11 period also saw significant improvements to the Bank's delivery capacity, institutional effectiveness, and focus on quality and development results, and confirmed the Bank Group's role as a convener in Africa and a voice for the continent. The Fund was effective in directing the bulk of its resources to strong performers through the enhanced Performance-Based Allocation (PBA) framework adopted in ADF-11; the initiative to set resources aside for regional operations and fragile states proved its worth, and strategic partnerships leveraged the impact of ADF resources. While the Bank Group's business processes can still be improved and its reform agenda deepened further, the results achieved under ADF-11 leave no doubt as to the Bank Group's increased effectiveness and capacity to deliver.

**The ADB Group as the Preferred Channel of Development Financing to Africa:** With its regional mandate, its sharpened strategic focus, and its successful implementation of institutional reforms, the Bank Group is establishing itself as the preferred channel of development financing to Africa. The confidence of the Bank's shareholders was reflected in their decision to triple the Bank's capital on May 28, 2010. This surge in resources will enable the Bank Group to better exploit its comparative advantages for the benefit of its regional member countries and enhance the synergy between ADF and ADB lending. While the Fund will remain the primary source of Bank Group financing for African low-income countries, the Bank's increased financial capacity provides an opportunity to leverage the synergies between the Bank and the Fund, in particular in fostering regional markets and economic integration, private sector development, and promoting food security and clean energy.

**Strategic Priorities for ADF-12:** Deputies agreed that under ADF-12, the Fund should continue to deepen its strategic role and consolidate its operational engagement in the priority areas of infrastructure, governance, regional integration, and fragile states. Programs and projects will be developed consistent with the Fund's strategic selectivity and on the basis of country led priorities, always with the view to accelerating growth in African low-income countries and supporting clients' development needs. In infrastructure, the Fund will scale up investments and prioritize projects that promote regional integration. In governance, it will focus on improving core governance systems and economic and financial management institutions, with particular attention to supporting the enabling environment for private sector development. In regional integration, the Fund will scale up investments in infrastructure and regional public goods, and provide support to build the capacity of regional institutions and economic communities. The Fund will introduce innovative approaches and guidelines with rigorous criteria to strengthen the selection, prioritization and performance of regional operations. The Fund will also introduce a phase-out mechanism for countries benefitting from supplemental support through the Fragile State Facility. The mechanism will be implemented on a

case-by-case basis, taking into account the performance, the needs and the diversity of fragile states' circumstances as these countries transition to a more normal development trajectory.

Crosscutting issues—private sector development, climate change adaptation and mitigation, gender and food security and agricultural productivity—will be mainstreamed into the Fund's core operations in an innovative and more deliberate manner. In light of the critical challenge posed by the adverse impacts of climate change, ADF-12 will place greater emphasis on helping countries invest in adaptation, for instance by ensuring that all new infrastructure operations are climate resilient, and by screening all projects for climate risks. As part of its emphasis on the development of the private sector, the Fund will add partial risk guarantees to its range of financing instruments as a means of stimulating additional private sector investments in low-income countries. Accelerating the role of the private sector will be of critical importance during ADF-12.

**Development Effectiveness and Managing for Results:** Building on progress in ADF-11 and drawing on lessons learned, the Bank Group will deepen its implementation of institutional reforms and expand its Results Measurement Framework. The ADF-12 Results Measurement Framework will track progress at four levels to capture the Bank Group's contributions to development outcomes at regional and country levels and to measure its operational and institutional effectiveness. The Bank Group will intensify reforms initiated in ADF-11 to (i) strengthen its delivery capacity further through robust human resource management and appropriate incentive systems; (ii) increase country-level dialogue, project implementation, and portfolio management through decentralized offices; (iii) improve its external communications, disclosure, and engagement with civil society; and (iv) enhance its institutional integrity, its adherence to fiduciary safeguards and procurement standards, and its policies and procedures for environmental and social safeguards. The Bank Group will continue to work in partnership with other donors, regional development institutions and client countries to ensure coordination and harmonization of its engagement while ramping up efforts to improve progress on its commitments on aid effectiveness under the Paris Declaration and the Accra Agenda for Action. Deputies welcomed Management's commitment to improving institutional reform and effectiveness. They noted that these commitments are set out in the matrix of institutional reforms agreed in the context of the Sixth General Capital Increase. The matrix has been published on the Bank's website.

**Resource Allocation:** Deputies confirmed that ADF resources would continue to be channeled to the poorest African countries through the PBA framework adopted in ADF-11. The two main determinants of the formula are country need (determined by gross national income per capita and country population) and country performance (determined by Country Performance Assessment scores).

Deputies also renewed their commitment to support the Fund's enhanced engagement in regional operations and fragile states. Performance will continue to be an important determinant of allocations within the regional operations and Fragile States Facility (FSF) envelopes.

- **Regional Operations:** 20 percent of ADF-12 resources will be allocated to the regional operations envelope. ADF-eligible countries participating in regional operations will contribute one-third of project costs from their PBA; two-thirds of costs will be paid from the regional operations envelope. The total allocated to regional public goods will not exceed 15 percent of the regional operations envelope.
- **Fragile States Facility:** UA 764 million will be transferred to the FSF under ADF-12. FSF resources will be allocated to the Supplemental Support Window (Pillar I) to top up the regular PBAs of beneficiary countries with a 2x multiple of the average of the two highest PBAs under ADF-11, and to the Arrears Clearance Window (Pillar II) to support timely and internationally coordinated action on potential arrears clearance operations during the ADF-12 period. Deputies noted the exceptional demand for arrears clearance resources in ADF-12. Management will report on the status of utilization of Pillar II resources at the ADF-12 Mid-Term Review. As regards the Targeted Support Window (Pillar III), Deputies agreed to roll over the unused balance of resources from ADF-11 and not to allocate new resources from the ADF-12 replenishment.

**Financing Terms and Replenishment Framework:** Countries' financing terms and grant shares of ADF-12 PBA resources will continue to be determined on the basis of the annual Debt Sustainability Framework traffic light classification. Resources provided by donors to compensate the Fund for the Multilateral Debt Relief Initiative will be reallocated to all ADF-only countries through a netting-out mechanism.

Noting the importance of ensuring the financial sustainability of the Fund, Deputies agreed that under ADF-12, the Fund would, upon approval by the Board of Directors, (i) introduce differentiated financing terms for blend, gap, and graduating countries; (ii) develop a graduation policy; and (iii) update the Bank Group's Non-Concessional Borrowing Policy to harmonize with recent changes adopted by the Bretton Woods Institutions.

**Advance Commitment Capacity:** Deputies approved the assumptions underlying the Advance Commitment Capacity (ACC) for ADF-12 and an ACC level of UA 2,007 million. The key ACC assumptions are (i) a grant level of 30.65 percent with an upfront charge of 14.57 percent to compensate foregone income flows; (ii) Multilateral Debt Relief Initiative compensation of 90 percent; (iii) ADB net income transfers of UA 35 million per year; and (iv) loan cancellations of UA 100 million per year.

**Replenishment Size:** Deputies agreed on a resource level of UA 6,096,731,479 for the ADF-12 period (2011–2013). The ADF-12 resource level comprises of (i) donor subscription of UA 3,756,810,946, supplementary contribution of UA 30,111,681 and a technical gap of 7.4 percent; (ii) Advanced Commitment Capacity of UA 2,007,340,552.

**Implementation:** The commitments undertaken by Management in this report are summarized in the ADF-12 Implementation Matrix (Annex I).

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## Abbreviations

ACC	Advance Commitment Capacity
ADB	African Development Bank
ADF	African Development Fund
ADF-10	Tenth General Replenishment of the African Development Fund
ADF-11	Eleventh General Replenishment of the African Development Fund
ADF-12	Twelfth General Replenishment of the African Development Fund
ADF-13	Thirteenth General Replenishment of the African Development Fund
COO	Chief Operating Officer
CPA	Country Performance Assessment
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Rating
CSO	Civil Society Organization
DAC	Development Assistance Committee
FSF	Fragile States Facility
GCI	General Capital Increase
GNI/P	Gross National Income Per Capita
IRM	Independent Review Mechanism
IT	Information Technology
LIC	Low-Income Country
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
OpsCom	Operations Committee
PBA	Performance-Based Allocation
PBO	Policy-Based Operation
PRG	Partial Risk Guarantee
UA	Units of Account

## **ADF-12 DEPUTIES' REPORT**

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### **1. Introduction**

- 1.1 Consultations for the Twelfth General Replenishment of the African Development Fund (ADF-12) commenced at a critical time for African low-income countries (LICs) and the international community. Exceptional global economic circumstances have marked the Eleventh General Replenishment of the African Development Fund (ADF-11) period, challenging donors as well as countries supported by the African Development Fund (ADF or Fund) to make the best use of limited resources in the face of escalating and competing demands. African LICs are more strained than ever to balance their budgets and mobilize the financing needed to promote growth and reduce poverty. And donors have had to address extraordinary domestic demands while continuing to meet their external commitments, including the concurrent replenishments and general capital increases of several international development institutions.
- 1.2 During the ADF-11 period, a decade of strong economic growth across a swath of African countries was brought to a halt by the food, fuel and financial crises. Although fiscal prudence and sustained macroeconomic reforms have helped African countries withstand the worst effects of the crises, Africa's longer-term growth has been seriously undermined. The implications are that African LICs have fallen even further behind on progress toward the 2015 Millennium Development Goals (MDGs) and continue to have the largest development financing gaps of any continent. In addition, African countries are bearing the costs of global warming and climate volatility. Adapting to these changes, preserving Africa's lakes and forests, and moving to a low-carbon development path will require substantial additional resources, as recognized in the Copenhagen Accord.
- 1.3 Nonetheless, the ADF is entering the ADF-12 period better positioned than ever to deliver timely, quality assistance to African LICs. Within the first 2 years of ADF-11 (2008-2009), 86 percent of the resources available under the period had been committed. In 2009, the second year of the cycle, annual disbursements reached Units of Account (UA) 935 million, double the level for the corresponding period during ADF-10. High demand and quickly growing commitments reflect both the continent's great financing needs in the ADF's areas of strategic priority and the Fund's improved delivery capacity. The African Development Bank (ADB or Bank) Group's steady decentralization of administrative and operational services to 25 Regional and Country Offices has brought the ADF closer to its clients. The Bank Group's catalytic role as a voice for Africa in the G-20 and other international fora has also grown substantially.
- 1.4 Acknowledging the demonstrably improved performance of the Bank Group, its attention to results, and its delivery capacity, representatives of donor countries (Deputies) reiterated their strong support for the Bank Group's aspiration to become Africa's premier development institution. They agreed to launch the ADF-12 consultations early and to pursue an accelerated replenishment process.<sup>1</sup> They also agreed to maintain the 3-year replenishment cycle for ADF-12, while taking note of Management's proposal to discuss the cost-effectiveness of the ADF replenishment process, including the length of the replenishment cycle, at the ADF-12 Mid-Term Review. The ADF-12 consultations included State Participants of the Fund, Participants from selected beneficiary countries (Burkina Faso, the Democratic Republic of Congo, Liberia and Uganda), observers from international development institutions, and Management and staff of the ADB Group.
- 1.5 ADF Deputies and representatives of borrowing countries (collectively referred to as "Participants") agreed that ADF-12 would focus on consolidating and deepening the Fund's mutually reinforcing strategic pillars of infrastructure development, governance, regional integration, and support to fragile states. Within this framework, the Fund will pay particular

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<sup>1</sup> ADF-12 consultation meetings were held in Helsinki, Finland on 23 October 2009 (in conjunction with the ADF-11 Mid-Term Review); Cape Town, South Africa on 22-23 February 2010; Abidjan, Cote d'Ivoire on 26-27 May 2010; and Tunis, Tunisia, on 7-8 September 2010.

attention to integrating private sector development, mainstreaming climate change adaptation and mitigation measures, and promoting food security and agricultural productivity. At the same time, it will strengthen gender mainstreaming and provide selective support for the development of human capital. Knowledge activities and the evaluation of results will be integrated into all operations and undertakings to inform the evidence-based decision-making process.

- 1.6 Consistent with its commitments to the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, the Fund will align its activities to countries' development programs and will coordinate closely with its partners. At the country and regional levels, the Fund's strategic orientation and operational activities will be aligned to countries' priorities as reflected in Country Strategy Papers and Regional Integration Strategy Papers. These papers are developed in close dialogue with country authorities and regional economic communities. The Fund's engagements are also harmonized with the engagements of other development partners to ensure a clear division of labor and to capitalize on the comparative advantages of the institutions involved. To support of this agenda, Deputies agreed on overall resources of UA 6,096 million for the ADF-12 period, 5.8 percent more than the resources for ADF-11.
- 1.7 For its part, the Bank Group committed to (i) maintaining the Fund's strategic selectivity and operational focus on infrastructure, governance, regional integration and enhanced support to fragile states; (ii) implementing an enhanced four-tiered results measurement framework with improved metrics and targets and a stronger focus on supervision and aid effectiveness; (iii) deepening its implementation of key reforms (especially in the areas of human resource management and decentralization) to strengthen its delivery capacity and its institutional effectiveness; and (iv) in line with changes in international practices and the Bank Group's operational focus, strengthening institutional policies in key areas such as information disclosure, civil society engagement, and environmental and social safeguards. The Bank Group will adhere to the highest standards of institutional integrity and best practices in risk management, fiduciary safeguards, procurement, and anti-corruption. Key commitments undertaken by Management are summarized in the ADF-12 Implementation Matrix (Annex I).
- 1.8 While acknowledging the significant progress achieved in the last few years, Deputies urged the Bank Group to deepen its reform program and translate its gains into sustained operational effectiveness and transformative impact on the ground. They noted the tripling of the Bank's capital under the Sixth General Capital Increase (GCI) and the commitments the Bank made in that context on institutional reform and effectiveness. These commitments were set out in the "GCI Matrix on Institutional Reform – Going Forward" and have also been published on the Bank's website. For ease of reference and for information this matrix is also appended to this report (Annex VIII). Actions particularly relevant to the ADF have been included in the ADF-12 Implementation Matrix. Deputies further welcomed Management's commitment to report periodically to Governors through the Board on progress.
- 1.9 This report sets out Participants' conclusions from the ADF-12 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-12 period (2011-2013).

## **2. Regaining Momentum for Africa's Development: Delivering Results and Rising to New Challenges**

### ***Africa's Development Prospects in a Fast-Changing Global Economy***

- 2.1 In the next few years, most African countries will celebrate 50 years of political independence. Although the past half-century was difficult for many, the first decade of the twenty-first century has marked a notable turnaround in Africa's economic and political fortunes. Countries have taken increasing ownership and responsibility for their own development, and had made impressive progress in stabilizing their economies and containing external debt in the 10 years preceding the financial crisis of 2008. A decline in the number of armed conflicts and better economic policies, including market-oriented reforms, contributed to strong performance. The continent enjoyed high growth rates (averaging up to 6 percent between 2001 and 2008) boosted by increased trade, debt relief assistance under the Heavily Indebted

Poor Country Initiative and the Multilateral Debt Relief Initiative, and higher volumes of aid, private capital inflows, and remittances.

- 2.2 This progress was brought to a halt—and in some cases reversed—with the onset of the food, fuel, and financial crises in 2008. African LICs have been affected by the knock-on effects of the financial crisis, which disrupted financial inflows and access to credit. They have also suffered from direct effects on the real economy, as demand for African exports in key markets contracted. Growth in gross domestic product in Africa as a whole fell from 5.6 percent in 2008 to 2.5 percent in 2009, while that of ADF countries dropped from 6.7 percent to 3.5 percent. Compared to previous crises, ADF countries have borne the current economic crisis relatively well. They have demonstrated resilience and a better capacity to manage their economies prudently by implementing appropriate macroeconomic policies and structural reforms and playing a more proactive role in setting and executing their development agendas. As reflected in several communiqués issued by the Committee of African Finance Ministers and Central Bank Governors (the Committee of Ten, or C-10), African governments are committed to maintaining the macroeconomic and development policies that have served them well during these difficult times. The leadership and commitment of the C-10 also demonstrates strong collective ownership of the region’s development agenda.
- 2.3 Projections by the Bank Group and the International Monetary Fund show the opportunity for Africa to regain a high growth path. However, African LICs will need to mobilize significant additional domestic and external resources if they are to regain this trajectory, cushion their populations against the long-term adverse impacts of the economic downturn and meet the costs of climate change.
- 2.4 Donors also have been hit hard by the financial crisis and increasing domestic demand for the infusion of large sums of capital to allay the impact of the crisis on their own financial systems and economies. Beyond their borders, they have had to respond to extraordinary requests to stabilize international capital markets and respond to humanitarian emergencies. Several donors have made significant progress in meeting their commitment to the Gleneagles target of doubling aid to Africa from US\$25 billion to US\$50 billion (in 2004 prices) per year by 2010. Nonetheless, in the aftermath of the financial crisis, many have had difficulty meeting their commitments. According to the 2010 update of the Organisation for Economic Co-operation and Development’s Development Assistance Committee (DAC), net official aid flows from nearly half of DAC donors were lower in 2009 than the year before and Africa is likely to receive only about US\$11 billion of the US\$25 billion increase envisaged at Gleneagles.<sup>2</sup> Given pressures for fiscal consolidation in a number of countries, the prospects for closing the gap in the short term are slim. Notwithstanding, in several fora, including the G20 and the 2009 DAC High Level Meeting, donors have affirmed their intention to meet their commitments in development financing and aid effectiveness and to increase their support for countries’ efforts to integrate crisis management with long-term growth and the achievement of the MDGs.

### ***Beyond the Crisis: Investing in Sustainable Growth***

- 2.5 The recent resilience demonstrated by Africa indicates that the reforms pursued by many governments of late were well grounded and that the continent has the potential to regain its momentum of growth. While challenges remain, years of deep and difficult economic and governance reforms are producing more capable governments that are taking greater ownership and responsibility for their development agenda, pursuing sound financial and economic policies, and are more accountable to their citizens. While this bodes well for the continent’s economic future and the welfare of its people, addressing Africa’s long-standing development challenges and its deeply entrenched poverty require a re-invigorated focus on broad-based and sustained economic growth, job creation and entrepreneurship.

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<sup>2</sup> Organisation for Economic Co-operation and Development’s Development Assistance Committee. April 2010. Available at [www.oecd.org/document/11/0,3343,en\\_2649\\_34487\\_44981579\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/11/0,3343,en_2649_34487_44981579_1_1_1_1,00.html)

2.6 For African LICs supported by the ADF, the demand for medium- and long-term development financing is particularly driven by the need to accelerate progress toward the MDGs, reduce the significant infrastructure deficit, and invest in climate change adaptation and mitigation.

- African LICs' prospects of **reaching the MDGs** have worsened in the aftermath of the global financial and economic crisis. Sub-Saharan Africa lags far behind the MDG target of halving the proportion of people living on less than US\$1.25 per day by 2015, and the 2008 food crisis has reversed modest progress in reducing hunger in several African LICs. ADF countries would need an estimated US\$30 billion more per year between 2011 and 2015 to boost growth enough to realize the MDGs.
- **Poor infrastructure** in Sub-Saharan Africa reduces gross domestic product growth by up to 2 percentage points per year and hampers business productivity by as much as 40 percent. Only about 25 percent of Africa's population has electricity within the home.<sup>3</sup> Africa's water storage capacity is the lowest in the world and widely underdeveloped irrigation infrastructure exacerbates the continent's food insecurity and its vulnerability to the effects of climate change. The negative effects of severely limited infrastructure are also evident in high production costs and poor service delivery. The annual financing requirements for infrastructure in ADF countries is estimated to range between US\$36 and US\$80 billion between 2010 and 2020, depending on growth and the efficiency of public investments.<sup>4</sup>
- Africa is the continent most affected by the adverse impacts of **global climate change**. For the poorest countries, adaptation is a clear and immediate priority, but charting a low-carbon growth pathway should also be actively explored and pursued where practicable. Recent climate change adaptation costs and the cost of putting Africa on a low-carbon growth pathway have been estimated at US\$22 billion to US\$31 billion per year between 2010 and 2015.

2.7 African LICs' ability to stimulate growth to the level required to preserve previous gains and continue to progress toward achieving their development goals in the near term will depend on substantially scaling-up domestic resource mobilization and external development financing. ADF countries will continue to improve their capacity for policy development and public resource management to ensure sustainable development financing. ADF countries' financing needs are matched by the countries' growing absorptive capacity, as evidenced not only at the macro level by improved Country Policy and Institutional Assessment (CPIA)<sup>5</sup> ratings but also at the project level by improving disbursement rates and other project performance indicators.<sup>6</sup> In this regard, the Gleneagles Scenarios<sup>7</sup> conducted for eight ADF countries by the MDG Africa Working Group have shown that scaled-up aid for already-designed projects and programs awaiting financing can be absorbed without compromising countries' macroeconomic stability and growth. The ADF will continue to work with regional member countries to help them pursue sound development policies and strategies that foster private sector development and promote growth and sustainable economic development.

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<sup>3</sup> The World Bank Group. 2009. *Africa's Infrastructure: A Time for Transformation*.

<sup>4</sup> According to estimates by the Africa Infrastructure Diagnostics Study, the cost of addressing Sub-Saharan Africa's infrastructure deficit is around US\$93 billion a year, nearly half of which is needed for the power sector.

<sup>5</sup> The Country Policy and Institutional Assessment (CPIA) annual rating tracks the performance of countries' policy and institutional framework to promote growth and reduce poverty. The CPIA is an index of 16 performance indicators (on a scale of 1 (lowest) to 6 (highest)) grouped in four categories: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions.

<sup>6</sup> For updated project performance indicators, see *ADF-11 Mid-Term Review: Progress in Implementing the ADF-11 Results Measurement Framework*. October 2009. Helsinki, Finland; and *The Results Measurement Framework for ADF-12*. May 2010. Abidjan, Cote d'Ivoire.

<sup>7</sup> United Nations, High Level Meeting of the General Assembly. September 2009. *The MDG Africa Steering Group and the Gleneagles Scenario Approach to Scaling Up ODA*. The Gleneagles Scenarios comprise three components: (i) a sector-by-sector analysis of the country's existing medium-term expenditure framework; (ii) a hypothetical spending profile for the use of funds on MDG projects and programs identified in national development strategies or plans and prioritized by the authorities (the funds in question coming from Gleneagles commitments); and (iii) a macroeconomic analysis of authorities' scaled-up expenditure path.

### ***The Unique Role of the African Development Fund***

- 2.8 Entering the ADF-11 period, the Bank Group committed to becoming a strong and effective partner of choice and helping African countries rise to the development challenges of the twenty-first century. The Fund and the Bank share a strategic, continent-wide focus on a limited number of priorities. The Fund's strategic focus is aligned to the priorities of its clients and is anchored in the Bank Group's broader vision and its Medium-Term Strategy 2008-2012. In the context of the recently agreed General Capital Increase, the Bank will expand its reach to LICs by making innovative pro-poor investments; steadily increasing the volume and quality of its private sector activities; investing in regional integration and capacity-building initiatives that benefit both middle-income countries and LICs; and transferring more net income to the ADF. The complementarity of the Bank Group's two financing windows is being reinforced in the newly adopted Bank-wide Results Measurement Framework, which tracks and supports the progress of all Bank Group operations, strategies and institutional reforms.
- 2.9 Participants commended the Bank Group for undertaking institutional reforms that have measurably improved its delivery capacity, institutional effectiveness, and focus on quality and development results. The implementation of these reforms has created the opportunity for a strategic repositioning that will allow the Bank to exploit its comparative advantages more fully for the benefit of its clients. This "One Bank" approach is bringing the Bank's goal of becoming the continent's premier development finance institution within reach. The Bank Group's unique regional character also makes it the partner of choice for most African countries for a broad range of special mandates and multidonor initiatives. It is becoming an increasingly influential voice for Africa internationally, and a respected platform for knowledge and advice within the region.
- 2.10 Participants also recognized that in the context of changes to the international aid architecture, the Fund has sharpened its selectivity and focus in areas where it most adds value.<sup>8</sup> It has become the lead donor and partner in regional integration, substantially scaling up its support for regional operations, regional public goods, and infrastructure. It has also demonstrated leadership and innovation in its engagement in fragile states. In addition, the Fund has taken advantage of the integrated nature of the Bank Group to promote private sector development, for example by financing operations in ADF countries through the Bank's private sector window, which in 2009 became the continent's largest provider of private sector financing. The Bank Group will continue to leverage this position to enhance its role as an honest broker in the promotion of public-private partnerships.
- 2.11 In the context of the 2008 food, fuel, and financial crises, the Fund responded quickly and effectively by adapting its policies and instruments to the changing needs of its client countries. It frontloaded its resources, restructured its loan portfolio, and offered fast-disbursing instruments designed to help ADF countries overcome the effect of the crises. Given that several countries may continue to feel the impact of the crisis for some time, the Bank Group will continue to monitor their recovery and engage with all development partners to address remaining challenges.
- 2.12 The Fund's operational performance in ADF-11 and the overall progress of the Bank's institutional reforms have given Fund shareholders greater confidence in the Bank Group's commitment to maintain momentum and in its ability to deliver. The ADF's recent achievements have reinforced the compact between the Fund, its members, and the African people, and have clarified the way forward.

### **3. Strategic Priorities for ADF-12**

- 3.1 Deputies affirmed that during the ADF-12 period, the Fund would deepen its strategic role, consolidate its operations in a selective and coherent fashion, and innovate in selected areas to promote development outcomes. The Fund will continue to focus on its mutually reinforcing core strategic priorities of infrastructure, governance, regional integration, and fragile states.

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<sup>8</sup> See the ADF-11 Mid Term Review paper, *The New Role of the African Development Fund in the Changing Aid Architecture*, Helsinki, 2009.

These priorities are relatively underfunded by the wider donor community and are consistent with both the needs of the continent and the ADF's comparative advantage. Thus, the Fund will build on investments made in ADF-11 and significantly scale up its operations in these strategic areas. Within the framework of its operational priorities, the Fund will integrate climate change adaptation and mitigation into its operations (especially in infrastructure and regional operations); expand its support for private sector development activities; employ more innovative approaches in gender mainstreaming and help develop human capital in niche areas; and promote food security and agricultural productivity.

### ***Deepening and Consolidating Investments within Existing Priorities***

#### **a. Addressing Africa's Infrastructure Needs in the 21<sup>st</sup> Century**

- 3.2 Participants noted that narrowing African LICs' infrastructure gap was necessary to attaining the MDGs. Infrastructure is the foundation of economic growth and development and is critical to private sector, agriculture, and rural development. Better infrastructure directly increases competitiveness and productivity, deepens economic and social integration, creates employment opportunities, improves the delivery of social services, and reduces poverty. In times of economic downturn, infrastructure investments are often used to stimulate recovery.
- 3.3 Participants strongly endorsed Management's proposal to mainstream climate change into national and regional infrastructure operations as well as to screen all projects for climate risks as a key innovation in ADF-12. Investments in climate change adaptation and mitigation will focus on renewable energy, regulatory and policy reforms, climate-friendly initiatives, and building national capacity for adaptation planning. The promotion of food security and agricultural productivity will also be integrated in the infrastructure portfolio. Key activities will include developing rural infrastructure and scaling up support for water storage and water management, including irrigation systems. Mainstreaming gender aspects in infrastructure operations will be another important area of engagement. Building on initiatives introduced in ADF-11, the Fund will reinforce the use of gender mainstreaming tools and seek to achieve sector targets by continuously training project teams, supervising activities closely, and reporting gender-disaggregated results.
- 3.4 The Fund's approach to infrastructure in ADF-12 will continue to reinforce the three pillars adopted in ADF-11: (i) scaling up investments, (ii) reducing investment fragmentation by increasing project size where appropriate, and (iii) emphasizing projects that promote regional integration. Reflecting the ADF's strong commitment to regional integration, over 40 percent of infrastructure projects in ADF-12 will be multinational. An appropriate mix of instruments—investment financing, policy-based lending, technical assistance, among others—will be employed. In addition, the Fund will pursue cofinancing opportunities with partner development agencies and, where appropriate, public-private partnerships. The challenge of maintenance costs and financing mechanisms will be addressed in regional and country-specific interventions.
- 3.5 At the subsector level, the Fund will target the following actions:
- **Transport**: It will expand the development of regional transport corridors, trunk and rural roads, railways, and urban programs that support or open up major centers of economic activity.
  - **Energy**: It will increase investments in power generation and energy efficiency, especially for clean and renewable energy (hydropower stations, wind farms, and solar energy) and regional power pools.
  - **Water and sanitation**: It will boost access to water and sanitation in both urban and rural areas, focusing on peri-urban centers and the poorest 65 percent of rural populations. It will also improve water management.
  - **Information and communication technologies**: It will invest in broadband and telecommunication infrastructure networks supported by international submarine systems, national backbones, and rural networks, and it will build capacity for policy and regulatory frameworks at the country and regional levels.

- 3.6 To complement its lending activities, the Fund will continue to leverage the Bank's thematic trust funds to provide technical assistance and conduct economic and sector work. These activities will focus on (i) the development and implementation of institutional, policy and regulatory frameworks; (ii) climate change adaptation and clean development mechanisms; (iii) road safety and overloading control; and (iv) a broad range of water sector issues. Technical and thematic partnerships such as the Program for Infrastructure Development in Africa and the Water Partnership Program will continue to underpin the Fund's policy dialogue and the planning and programming of regional and national infrastructure operations.

#### b. Promoting Accountable and Transparent Governance

- 3.7 Participants expressed strong support for the Fund's role in promoting good governance and combating corruption. They underscored that this was an essential pillar for nurturing a vibrant and stable society, a thriving economy, and well-functioning public and private sectors. Development dividends are shared more widely and equitably among citizens in states where systems and procedures facilitate the accountable and transparent transaction of government affairs and the efficient management of public resources. Even though much remains to be done, core components of Africa's governance outlook have improved significantly in recent years, with several governments holding democratic elections, implementing sound policies, building strong institutions, opening political and economic space to public scrutiny, and adopting international standards and codes of conduct on several fronts.
- 3.8 The Fund has helped deliver improvements in economic and financial governance in several regional member countries in ADF-11. In some countries, it has helped prevent expected declines in governance and pro-poor spending resulting from the pressures of the global economic downturn. Nonetheless, progress has not been distributed evenly across countries and challenges remain, especially as regards the measurement and attribution of aggregate governance results at the country level. Once the recently introduced Core Sector Indicators are fully implemented, the Fund expects to significantly improve the measurability and comparability of aggregate results across its governance portfolio, thus better tracking progress at the country level.
- 3.9 While ADF operations will primarily focus on financial and economic governance, the Bank Group will continue to coordinate its activities and collaborate on broader governance issues with other development partners such as the African Union, the United Nations, the Bretton Woods Institutions, bilateral donors and other relevant regional and global entities.
- 3.10 Deputies agreed that the Governance Action Plan adopted in 2008 would continue to serve as the ADF's main framework for governance-sector interventions during ADF-12. The Governance Action Plan's agenda concentrates on public financial management at the sector, country and regional levels, as well as increased support for business-enabling environments. Building on its work program under ADF-11, the ADF's governance portfolio will directly support client countries' private sector development agenda by helping develop the financial sector, addressing trade competitiveness, improving public procurement, and encouraging revenue management and anti-corruption reforms.
- 3.11 Consistent with its Governance Action Plan, the Fund will further strengthen its governance-related interventions by consolidating its support for financial governance, public financial management and procurement programs and by expanding its assistance for economic governance and private sector development at three levels:
- At the country level, the Fund will improve core governance systems and institutions through a blend of aid instruments, including policy-based operations, capacity-building projects, and technical assistance. Improving country systems so as to better manage public resources will help make poverty reduction expenditures more efficient and effective, and will stimulate growth. The Fund will sharpen its engagement in reform of procurement and public financial management systems, particularly as regards budget processes, public procurement, government auditing, and the administration and management of taxes and revenues. With regard to *budget processes*, the Fund will continue to support transparency and credibility in budget planning and expenditure management, consistent with countries' poverty

reduction strategies and aid predictability initiatives. With regard to *public procurement*, the Fund will help countries implement procurement rules and transparency, in part by building capacity. With regard to *government auditing*, the Fund will strengthen the quality, comprehensiveness and timeliness of internal and external auditing by building the capacity of supreme audit institutions and other entities. Finally, with regard to *tax administration and revenue management*, the Fund will continue to assist regional member countries to mobilize domestic resources, for example by broadening the tax base.

- At the sector level, the Fund will increase support for governance and anticorruption initiatives and programs designed to improve the business environment. The Fund will aim to improve legal and regulatory frameworks in the infrastructure, natural resources, and private sectors and will promote effective financial sectors in ADF countries. The Fund will continue to support the implementation of the Extractive Industries Transparency Initiative and encourage good governance in RMCs' extractive industries.
- At the regional level, the ADF will continue to work with pan-African institutions and networks to promote standards and codes of good financial governance. In the area of financial governance, these include the African Regional Technical Assistance Centers (for capacity building), the African Organization of Supreme Audit Institutions, the African Tax Administration Forum, the Collaborative Africa Budget Reform Initiative, the African Peer Review Mechanism (for governance peer review), and the emerging, Bank-sponsored public procurement network. To deepen regional integration, the Fund will continue to support regional bodies such as the Common Market for Eastern and Southern Africa and the West African Economic and Monetary Union in developing regional standards and codes of good financial governance. Similarly, the Fund will scale up its support for regional initiatives such as Making Finance Work for Africa and the African Investment Climate Facility, that aim to create a governance environment more conducive to private sector development and a healthy investment climate.
- The Fund will also continue to identify and exploit synergies between its lending and non-lending activities in order to maximize development results and improve economic and financial governance.

3.12 Participants supported the Fund's ambition to scale up its support to ADF countries for debt management capacity building within the framework of public financial management and debt relief initiatives. The Fund will help ADF countries adopt and/or implement debt management strategies founded on the judicious management of public resources, satisfactory budget execution and sound revenue policies. It will continue to assist countries to strengthen their public finance management policies and institutions and will provide technical assistance and resources for debt management capacity-building initiatives in collaboration with its development partners. Participants also endorsed the Bank Group's approach to addressing issues related to debt sustainability and non-concessional borrowing by collaborating closely with the International Monetary Fund, the World Bank, other multilateral institutions, and bilateral donors to ensure collective action and harmonized policies that safeguard against the accumulation of unsustainable debt in LICs.

3.13 Policy-based operations (PBOs) are the Fund's primary instrument for supporting ADF countries' efforts to strengthen economic and financial governance through credible and sustained policy dialogue with governments in conjunction with other development partners. Participants supported Management's commitment to integrate the lessons and findings of the review of PBOs conducted during ADF-11, the findings of the independent evaluation to be released in late 2010, and lessons and emerging evidence from the Bank Group's collaborative work with the European Union and the World Bank on the "Common Approach for the Provision of Budget Support to Fragile States" study. They agreed that in ADF-12, the Fund would implement measures to strengthen the fiduciary risk management framework for PBOs and would consolidate and update the Bank's PBO-related policies. They further agreed that under ADF 12, the Fund would continue to use PBOs both in strongly performing countries and, on a case-by-case basis, in countries whose performance was not as strong but where there was government commitment to reform and evidence of a positive trajectory

of change in public financial management, and where fiduciary safeguards could be used to manage specific elements of fiduciary risk. Participants endorsed the selective use of PBOs, as part of a comprehensive package that includes policy dialogue, technical assistance and capacity building, to respond to exceptional circumstances, such as crises and emergencies, or in the context of post-conflict and peace-consolidation efforts.

### c. Harnessing Africa's Potential through Economic Integration

- 3.14 Regional integration, a core mandate of the Bank Group, is a prerequisite for accelerating shared and lasting growth in Africa, building competitive and integrated markets, expanding trade, and raising the continent's productivity. Regional integration is fundamental to securing Africa's future.
- 3.15 Participants agreed that the Fund would retain regional integration as a distinctive strategic priority area in ADF-12. As a lead financier of regional operations and the convener of several regional initiatives<sup>9</sup>, the Fund plays a critical role in developing the continent's regional integration agenda. It serves as a resource mobilization platform and facilitates the coordination and implementation of common continental and regional integration priorities such as those developed by the African Union and the New Partnership for Africa's Development. The Bank Group will continue to operate in coordination and complementarity with other development partners in the region, including on the development, implementation and monitoring of the Program for Infrastructure Development for Africa.
- 3.16 The Regional Operations Framework adopted in ADF-11 will continue to guide the Fund's engagement in ADF-12, with strategic priorities in regional infrastructure, regional public goods, and capacity building. Climate change adaptation and mitigation will be a vital element of regional operations under ADF-12, both for new initiatives and operations that build on activities initiated during ADF-11. The Fund will expand partnerships and identify sources for additional resources and cofinancing opportunities for its regional infrastructure initiatives. An independent evaluation (which will be presented for Board discussion in late 2011) will assess the performance of regional operations and Management will take full account of its findings in the design and execution of future regional operations.
- 3.17 Deputies endorsed Management's proposals to enhance the strategic and operational framework for regional operations in ADF-12. These proposals include innovative approaches for strengthening the selection and prioritization of regional operations, their link to performance and their development results:
- Rigorous Selection and Prioritization: The Fund will apply a two-step selection and prioritization process to filter high demand and build a strong pipeline. The first step will consist of developing Regional Integration Strategy Papers in broad consultations with recipients, regional organizations, and other donors. These papers will serve as a tool to help the Fund prioritize regional projects and programs and will include criteria for assessing and evaluating regional integration strategies in each region. In the second step, the Fund will rank and prioritize operations on the basis of (i) their quality at entry and readiness, (ii) collaboration with and cofinancing by other development partners, (iii) the expected development outcomes and impacts of the operations, and (iv) their expected impacts on climate change.
  - Strengthening Incentives for Performance: The Fund will develop a project scorecard to incentivize countries' performance in regional operations and compare and rank planned operations. The ranking criteria and the performance indicators that will feed into the scorecard will include the weighted CPIA scores of participating countries, project quality-at-entry measures, and the performance of participating countries in ongoing and past regional operations. The criteria used for the project scorecard will complement criteria already applied in the selection and prioritization process. A framework paper detailing the design and implementation of the selection and prioritization process and the scorecard system will be presented to the ADF Board of

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<sup>9</sup> The Fund's financing of regional integration and regional public goods accounts for up to 21 percent of total ODA commitments for regional operations since 2003. See African Development Fund. 2009. *The New Role of the African Development Fund in the Changing Aid Architecture*, ADF-11 Mid Term Review, Helsinki.

Directors for approval prior to the commencement of ADF-12.

- Stronger Results Measurement and Reporting: The Results Measurement Framework for ADF-12 will include new features to better track the performance of regional operations. These include (i) coverage of regional operations in a dedicated section of the Annual Portfolio Performance Review and (ii) the use of an integrated results reporting system to generate statistics that produce an aggregate picture of progress in line with the practices of other development institutions.

- 3.18 In addition to these specific measures, the Fund will continue to strengthen the integration of essential management, governance and regulatory activities into “hard” regional integration projects. These efforts will be complemented by a comprehensive capacity-building program to help the institutions of participating countries and regional economic communities implement regional agreements. In developing these actions, Management will take full account of lessons from the independent review of regional operations due for release in late 2011.
- 3.19 Deputies agreed that in ADF-12, the regional operations envelope would amount to 20 percent of all ADF-12 resources (UA 1,157 million after deducting contingencies). In addition, countries will contribute to regional operations from their Performance-Based Allocations (PBAs). The cost-sharing system specified in ADF-11 will continue to apply: a 33 percent contribution from the country’s PBA but no more than 10 percent if the country’s PBA is UA 20 million or less. Allocations to regional public goods will not exceed 15 percent of the regional operations envelope.

d. Helping Fragile States Build Economic Capacity and Stability.

- 3.20 Participants commended Management for successfully implementing the Fragile States Facility (FSF) under ADF-11, especially as regards supplemental support to complement eligible countries’ PBAs and the facilitation of arrears clearance and country re-engagement programs. As was the case in ADF-11, the Fund’s strategic goal for fragile states during ADF-12 will be to help countries move from a condition of fragility to a path of sustainable recovery and development by providing them with tailored assistance at critical junctures of their re-engagement and recovery process.
- 3.21 The Strategy for Enhanced Engagement in Fragile States and the Operational Guidelines for the Fragile States Facility (2008) will continue to guide the Fund’s engagement in fragile states over the ADF-12 period. Strategic priorities in fragile states will focus on rehabilitating infrastructure to improve the delivery of basic services; supporting governance; and building institutional and human capacity. The Fund will provide expeditious, meaningful, targeted support to fragile states and/or post-conflict countries that are eligible for FSF resources as per the criteria established in ADF-11. The Fund will develop and implement a phasing-out mechanism for countries benefitting from FSF supplemental support starting in ADF 12. The exit mechanism, which will be implemented on a case-by-case basis, will take into account the diversity of fragile states’ circumstances as the states transition to a more normal development trajectory.<sup>10</sup> An independent evaluation of the Fund’s assistance to fragile states will be released in mid-2011. Deputies welcomed the Board of Directors’ recent discussions of the Bank Group’s guidelines on the continuity of operations and engagement with *de facto* governments.
- 3.22 The Bank will continue to work in partnership and close collaboration with regional and non-regional organizations working in fragile and conflict-affected countries in Africa. These efforts will be informed by consultative processes and common understanding of the particular comparative advantages that individual organizations bring in different country settings, and also on an agreed division of labor at the country level. The Bank will also continue to participate proactively in the International Network of Conflict and Fragility Organizations of

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<sup>10</sup> As agreed with Deputies, the parameters and associated discount rates for phasing countries out of the FSF Pillar I include (i) average World Bank/African Development Bank CPIA score to measure performance against the agreed fragility benchmark of 3.2 (i.e. 10 percent discount on gross Pillar I allocation if a country has a CPIA score greater than 3.3); (ii) Gross National Income per Capita (20 percent discount if greater than US\$500); and (iii) length of reengagement, including pre-Fragile States Facility engagement under the Post Conflict Country Facility (20 percent discount if greater than 6 years).

the Organization for Economic Co-operation and Development – Development Assistance Committee and in the International Dialogue on Peace and State-building. Collaboration and coordination between the Bank and the Bretton Woods Institutions will focus on harmonizing and sharing operational knowledge and experiences, undertaking joint missions and economic and sector work, coordinating arrears clearance and reengagement processes, provision of debt relief for eligible countries, and preparation of joint programming strategies.

- 3.23 Acknowledging that the inherent benefits of predictable resource flows, reduced transaction costs, and country ownership make PBOs particularly important in assisting post-conflict countries with a limited revenue base and large unmet financing needs for basic services, Deputies reaffirmed the judicious use of PBOs in countries whose governments are committed to reform, where the conditions for close monitoring and coordination exist, and where fiduciary safeguards are either in place or can be put in place for the operation concerned. PBOs will be used as part of a comprehensive package that includes such elements as technical assistance and capacity building (including on fiduciary systems and financial management), analytical work and policy dialogue, all of which will be tailored to country circumstances,
- 3.24 Deputies agreed that the maximum resources allocable to the FSF under ADF-12 would be UA 764 million, of which UA 405 million would be allocated to the Supplementary Support Window (Pillar I) and UA 359 million to the Arrears Clearance Window (Pillar II). In agreeing to this allocation, Deputies reaffirmed their strong support for the Bank's comparative advantage in supporting fragile states in Africa with robust and meaningful interventions at the outset through arrears clearances and supplementary support, followed by a well-designed phasing-out strategy that reflects beneficiaries' progress and the role of other development partners. They also noted that the ADF-12 period will be one of unique and exceptional demand with regard to the level of resources required to clear the arrears of countries expected to re-engage during this period. Management will ensure that the conditions for the Fund's engagement in arrears clearance operations will be agreed as part of the collective action of the international community and that beneficiaries are fully compliant with FSF eligibility criteria. As regards the Targeted Support Window (Pillar III), Deputies agreed to roll over the unused balance of resources from ADF-11 and not to allocate new resources from the ADF-12 replenishment.
- 3.25 Management will submit to the ADF Board of Directors and ADF Deputies a report on the status and expectations concerning Pillar II resources at the ADF-12 Mid-Term Review. In the event that resources allocated to Pillar II are not expected to be utilized or are not utilized as anticipated, Management will propose that the resources be folded into the PBA pool for reallocation to all ADF countries in the third year of the ADF-12 cycle.

### ***Crosscutting Themes: Strengthening Strategic Links and Innovative Approaches***

- 3.26 For the Fund, whose selectivity has boosted its performance during ADF-11, avoiding "strategic drift" while deepening its integration and mainstreaming of crosscutting issues is paramount, especially at a time of growing and competing demands. Participants urged the Fund to pay full attention to the key crosscutting themes of private sector development, climate change adaptation and mitigation, gender equality and the promotion of food security and agricultural productivity.

#### **a. Enhanced Support for Private Sector Development**

- 3.27 Participants expressed strong support for the Bank Group's enhanced role in promoting private sector development in Africa and strongly endorsed the Fund's exploration of innovative and bold approaches to encouraging private sector investments in LICs. They acknowledged that private sector development was fundamental to fostering and accelerating growth in ADF countries and that the Bank Group was uniquely positioned to support this agenda by (i) helping its clients create a fertile environment for entrepreneurship, including the promotion of small and medium enterprises; (ii) mobilizing private sector participation and attracting domestic and foreign direct investment; and (iii) supporting the development of financial markets and services. Deputies endorsed the thrust of the Bank Group's Private Sector Strategy, which will guide the Fund's approach in ADF-12. The strategy combines

three mutually reinforcing elements: the development of diagnostics and strategy; support for programs that promote a business-enabling environment, especially in the areas of economic infrastructure, governance, and regional integration; and catalytic transactions conducted through non-sovereign operations in areas where private financial institutions are reluctant to invest.

- 3.28 The Bank Group will use the increase in its resources during the ADF-12 period to demonstrate even greater leadership in two areas: promoting country alliances with international investors, and encouraging private sector investments in major regional infrastructure and climate-resilient low carbon projects. Given the rapid increase in the volume of private sector transactions, Deputies urged the Bank Group to pay particular attention to the quality and performance of transactions during ADF-12.
- 3.29 Deputies commended Management for proposing innovative approaches to leverage assets from the Bank's hard and soft lending windows to encourage further private sector investments in ADF countries and channel more ADB resources to African LICs. They agreed that the Fund should introduce the partial risk guarantee (PRG) instrument in ADF-12 on a pilot basis to leverage additional resources from the private sector and other cofinanciers for ADF countries, including fragile states. To build internal capacity and integrate lessons learned, the Bank Group will work in close coordination and partnership with sister institutions with experience implementing PRGs. Taking Participants' comments and suggestions into account, Management will present a framework proposal to the Board of Directors for approval. This framework will serve as basis for operating guidelines to be developed prior to the commencement of ADF-12 (Annex II).
- 3.30 As regards Management's proposal to pilot a first loss portfolio guarantee instrument, Deputies broadly welcomed the concept and its innovative approach and suggested that Management develop a financing plan that draws on alternative financing sources. They also recommended that Management provide more detail on its strategic objectives and implementation modalities for discussion by the appropriate decision-making fora.

#### b. Putting Africa on a Low-Carbon, Climate-Resilient Growth Path

- 3.31 Participants strongly endorsed the proposal to mainstream climate change considerations into ADF operations. In this regard, the Fund will emphasize collaboration, complementarity, and coherence with the work of other development partners, and the Bank Group will strengthen its convening role to present a strong African voice on climate change issues in regional and global fora. Work alongside other multilateral development banks is underway to develop a means of measuring the greenhouse gas emissions produced by the entire portfolio of Bank operations.
- 3.32 The Bank Group's Climate Change Action Plan, which will make operational the Bank Group's Clean Energy Investment Framework and Climate Risk Management and Adaptation Strategy, will guide the Fund's approach to implementing climate change measures in ADF-12. The Bank Group will prioritize the activities and operational investments with the most impact, including policy and regulatory reforms aimed at implementing feed-in tariffs to encourage investments in renewable energy or energy efficiency measures. Emphasis will be placed on improving low-income households' access to energy and building national capacity for adaptation planning. In developing its Energy Policy, the Bank Group will commit to a climate-friendly balance of sources of energy—including hydropower, geothermal, wind and solar—and ensure ambitious renewable energy investments in the overall ADF-12 energy portfolio. The Energy Policy will also address access to energy, energy poverty, and subsidy reforms. For coal-fired plants, the Bank will collaborate with other multilateral development banks to develop and implement consistent guidelines.
- 3.33 Regional operations and overall infrastructure investments under ADF-12 will help mitigation and adaptation goals by prioritizing climate-friendly investments in renewable energy, railroads, and public transport. In supporting investments in energy, the ADF will ensure that lower-carbon options and comparative costs are explored fully. The Fund will employ the financing instruments that are best suited to promoting country reforms that stimulate public and private investments in climate-friendly options. Strengthening partnerships and

collaboration, especially with key players such as the Global Environment Facility, the Climate Investment Funds, and the United Nations Economic Commission for Africa, will be a cornerstone of the Fund's approach. The Bank will continue to collaborate with partners and deliver in areas that correspond to its strategic priorities and in which it enjoys a clear comparative advantage, without replicating the work of other agencies.

#### c. Deepening Gender Mainstreaming and Investing in Human Capital

- 3.34 Deputies emphasized the need to accelerate and deepen the implementation of gender mainstreaming measures across the Bank Group's operations. Building on the experiences and lessons learned over several years of integrating crosscutting issues, in ADF-12 the Fund will enhance gender mainstreaming by (i) supporting investments that promote women's economic empowerment in infrastructure, agriculture, and human development; (ii) building internal institutional capacity and knowledge-sharing; and (iii) strengthening client countries' capacity to formulate gender policies and implement gender equality-promoting legal frameworks. The Fund will continue to develop gender profiles and tools to guide the integration of gender issues into ADF-supported operations and country programming documents, such as Country Strategy Papers and Poverty Reduction Strategy Papers. It will deepen its analytical work in areas relevant to women's economic empowerment—such as land and property rights, agricultural development, and women's entrepreneurship—to better inform policy making and programming. In the context of the Fund's policy dialogue around policy-based lending operations, support will be provided to strengthen regional member countries' capacity to institutionalize gender-responsive budgets and auditing. Gender mainstreaming will be assessed as a crosscutting issue in the Bank's program of independent evaluation studies. The Operations Evaluation Department is preparing a synthesis study reviewing international experience of gender mainstreaming to inform the Bank Group's work in this area. The study will be presented for Board discussion by the end of 2010.
- 3.35 Deputies endorsed the institutional measures adopted in 2010 to accelerate the implementation of the Bank Group's gender mainstreaming agenda across Bank operations. In addition to increasing the Bank's staffing capacity and in-house gender expertise, the division tasked with gender functions has been moved to the Results and Quality Assurance Department under the purview the Chief Operations Officer (COO). These measures are critical to strengthening the results focus of the Bank's gender mainstreaming approach and reinforcing the Bank's commitment to mainstreaming gender issues institution-wide.
- 3.36 With regard to developing human capital, Participants acknowledged the critical need to invest in people and help regional member countries build and retain the human capital needed for economic growth, development, and poverty reduction. To that end, the Fund will remain engaged in the human development sector in a limited and selective fashion, and will support the priorities highlighted in the Bank Group's Strategy for Higher Education, Science and Technology. Interventions under ADF-12 will focus on (i) financing infrastructure, (ii) supporting national and regional centers of excellence, and (iii) strengthening the links between the education sector and the productive sectors.

#### d. Promoting Food Security and Agricultural Productivity

- 3.37 With several ADF countries struggling to recover from the 2008 food crisis, Deputies urged the Fund to scale up its support for food security and agricultural productivity in ADF-12. Deputies also urged the Fund to align its food security and agricultural development activities more closely with the Comprehensive African Agriculture Development Program, in light of the program's strong African ownership. They supported the proposal to channel the bulk of the Fund's support for food security and agriculture programs through its core strategic priorities, especially infrastructure.
- 3.38 The Agriculture Sector Strategy 2010-2014 will guide ADF-12 operations to help ADF countries increase agricultural productivity, improve food security, and reduce the adverse impacts of climate change. The strategy, which seeks to contribute to the Bank's ultimate goal of reducing poverty by investing in sustainable and climate-resilient agricultural development, calls for close coordination with specialized agencies such as the International Fund for Agricultural Development with a view to maximizing synergies and ensuring a clear division of

labor among development partners at country and regional levels. The Fund will continue to focus on the infrastructure components of agriculture. Key interventions will include building and rehabilitating rural feeder and access roads, markets, and storage facilities; supporting agro-processing and reducing post-harvest losses; and supporting regional trade and export infrastructure. Operations supporting rural water management and irrigation systems will also be scaled up significantly. Deputies welcomed the Bank Group's role as a supervising entity in the newly established Global Agriculture and Food Security Program. They encouraged the Bank to continue coordinating closely with other related international efforts, such as the "L'Aquila Food Security Initiative", and to aligning its approach with the principles and practices to promote responsible and sustainable agricultural investment.

## **4. Development Effectiveness and Managing for Results**

### ***Measuring and Reporting on Results***

- 4.1 Participants commended the Bank for steady progress toward meeting its commitment to the global agenda on managing for development results. They supported the Bank's increased attention to measuring and reporting on its contribution to development outcomes, and were encouraged by the implementation of the ADF-11 Results Measurement Framework and the institutional reforms detailed in the Action Plan on Quality and Results.
- 4.2 Participants welcomed the improvements to the Bank's approach for measuring and tracking results and the development of the "One Bank" framework. In ADF-12, under the oversight of the COO, the Bank will step up implementation of the Action Plan and enhance its Results Measurement Framework by (i) expanding the current framework to support all Bank Group operations, policies and strategies, including country and regional integration strategy papers; (ii) introducing systems and metrics that better capture the contributions to development of a range of Bank Group activities, including private sector operations; and (iii) reviewing progress at four, rather than three, levels (Annex III). These levels are as follows: development outcomes in Africa (Level 1); the Bank's contributions to development outcomes (Level 2); the Bank's operational effectiveness (Level 3); and the Bank's organizational efficiency (Level 4). The framework will be complemented by independent evaluation studies that assess accomplishments at each level in depth. Country Strategy Papers will be used to implement the Bank Group's Results Measurement Framework at the country level and to realize the Bank's commitments under the Paris Declaration on Aid Effectiveness. For areas of strategic importance such as governance, fragile states, climate change, gender, regional operations and private sector development, Management will produce additional briefs that offer a more nuanced and qualitative analysis of the link between the Fund's operations and long-term country results.
- 4.3 Deputies expressed strong support for this approach and requested that Management continue to refine targets and indicators based on lessons learned from the implementation of operations, emerging best practices, and the experiences of other multilateral development banks. They particularly asked that attention be paid to (i) integrating qualitative indicators and reports that complement the quantitative indicators of the Results Measurement Framework; (ii) introducing more ambitious targets at Levels 3 and 4; (iii) better measuring the results of private sector and policy-based operations; and (iv) employing gender-disaggregated indicators and targets. Deputies also requested Management to consult with the Board of Directors about including additional Level 4 (institutional efficiency) indicators to measure and report on Board effectiveness.

### ***Reviewing, Implementing and Supervising Operations and Strategies***

- 4.4 Ownership of Strategies and Operations. Participants supported the Fund's approach to continue anchoring the ADF's country and regional strategies and operations in client countries' poverty reduction and development programs. The Bank Group's Country Strategy Papers and Regional Integration Strategy Papers draw on country poverty reduction strategies and regional economic integration priorities. Project pipelines are developed through a consultative process led by regional departments and Field Office representatives, with Country Teams as the locus of intensive iterative internal consultations and coordination

with country authorities and regional organizations. Anticipated operations are consolidated in the Bank's work program to give Management a 3-year outlook and the opportunity to align proposed projects to institutional objectives.

- 4.5 Review of Operations and Strategies. Deputies strongly supported the role of the Operations Committee (OpsCom) in leading and facilitating institutional coordination for the review of operations, strategies, and policies. OpsCom has been particularly instrumental in improving the quality at entry of operations and strategies and increasing corporate ownership. Under the leadership of the COO and drawing on findings from Management's recent assessment of current review processes, the Bank Group will strengthen the capacity of the OpsCom Secretariat and sharpen OpsCom's strategic role so that it provides more effective guidance and support for program quality, portfolio management, operational outcomes, and results. Deputies commended Management for the innovative quality-at-entry tools and approaches initiated in ADF-11, such as Readiness Reviews and the better integration of lessons from Project Completion Reports (whose coverage reached 100 percent in 2010). In ADF-12, the Bank will finish mainstreaming Readiness Reviews into all public sector operations and Country Strategy Papers and will adopt a set of quality-at-entry standards to guide Country Teams in the technical preparation of project documents.
- 4.6 Project Implementation and Supervision. Participants supported the Bank's commitment to strengthen the supervision of ongoing operations by simplifying its supervision tools and procedures and make them more effective at proactively identifying and addressing risks. The Bank is also moving toward a risk rating system that is more evidence-based, establishing mechanisms and staff incentives for greater candor in rating. Management will implement a series of measures designed to improve supervision practices across Bank operations based on a comprehensive approach that modifies rules, formats and incentives. To this effect, in ADF-12, the Bank will introduce new supervision guidelines to increase Field Offices' responsibilities for supporting projects on a continuous basis. A revised reporting template will focus on assessing progress toward outputs and outcomes as opposed to reporting on administrative and process issues. The template will require Task Managers to concentrate on actions to address risk and achieve objectives. Staff performance incentives (i.e., corporate Key Performance Indicators) will be revised to reflect the new supervision approach. Progress in supervising projects will be recorded with a user-friendly results reporting system accessible both from Headquarters and the field. More specifically, the Results Reporting System and new supervision reporting template will both enhance the systematic reporting of progress and make it easier to access and share portfolio performance information within the Bank Group as well as with other stakeholders. The system will provide data on the status of supervision of all Bank operations at any point in time, including preliminary results. These reforms will be accompanied by broad training in supervision skills. Management recognizes that supervision in fragile states is demanding and needs adequate resources. The increased focus on results reporting (progress toward outputs and outcomes) will be accompanied by more monitoring of financing agreements and fiduciary, environmental, and social safeguards.
- 4.7 Enhancing Learning and Accountability through Evaluation. Participants encouraged Management to continue strengthening organizational learning through independent evaluations and by applying lessons learned to new operations. The Operations Evaluation Department will continue to play a critical role in independently assessing ADF operations and policies and recommending improvements. Evaluation results will be widely discussed and disseminated both within and beyond the Bank, especially in regional member countries. Participants also encouraged the Bank to step up efforts to build evaluation capacity in regional member countries and requested that more attention be paid to impact evaluation, while recognizing the high cost and technical difficulty of such work. Deputies commended the Fund for the extraordinary achievement in the timeliness of Project Completion Reports during ADF-11 (timely coverage rose from 9 percent in 2006 to 100 percent in early 2010) and urged that the Fund maximize its use of the reports by integrating the lessons and evidence therein to improve the design and delivery of new or ongoing operations.

- 4.8 Deputies noted that the Bank's Committee on Operations and Development Effectiveness would continue to oversee the Operations Evaluation Department's program of rolling independent evaluation studies. The program is aligned to ADF priorities and includes thematic studies on the Bank's work on regional operations, fragile states, policy based operations, as well as a review of the Bank Group's implementation of the Paris Declaration commitments. The Deputies emphasized the important role evaluation plays in documenting the Bank's performance and the results of ADF assistance, and in identifying good practices to feed back into policy and operations.

#### ***Deepening Institutional Effectiveness***

- 4.9 Participants strongly supported the Bank Group's commitment to build on the momentum and accomplishments of ADF-11 and to deepen its implementation of institutional reforms. Following the substantial completion of the streamlining and strengthening of its business processes, the Bank will concentrate on transforming its increased capacity into stronger development outcomes. Deputies urged that the Bank continue to strengthen the management of its human resources through robust staffing and transparent, merit-based recruitment and performance incentive systems. They also encourage the institution to continue to roll out its decentralized resource management framework. The Bank will maintain its accountability framework, using Key Performance Indicators to implement programs and budgets.
- 4.10 Strengthening Delivery Capacity and Ensuring Budget Discipline. Under ADF-11, the Bank Group had focused on structural, managerial and organizational reforms centered on the "hard" aspects of institutional capacity. Deputies stressed the importance of consolidating these reforms in ADF-12 in the context of the "One Bank" approach. They urged that greater emphasis be placed on strengthening the links between institutional reforms and their impact on the quality and efficiency of delivery by reinforcing incentive systems, empowering managers, promoting accountability, and nurturing a distinct corporate identity and value system, inter alia, by promoting bilingualism, throughout the Bank.
- 4.11 Deputies urged the Bank to aggressively ramp up the implementation of reforms in human resource management (especially staff recruitment) and the upgrading of information technology (IT) functions to meet the institution's growing demand. Under ADF-12, the Bank will boost its human resource management and implementation capacity by increasing the size and professional expertise of the Human Resources Management Department and rolling out two key initiatives: the Bank's Recruitment Manual, which will guide the implementation of updated policies and procedures, and the newly developed Career Development Framework. The Bank will also continue to implement functional upgrades of SAP and improve Field Offices' connectivity. Recognizing that transforming human resource and IT functions is central to the success of the Bank's institutional reforms, Management has prioritized the allocation of resources (both human and financial) to these departments and is monitoring progress closely with robust performance indicators.
- 4.12 Deputies welcomed Management's ongoing efforts to fine-tune the Bank's organizational structure to ensure its compatibility with the Bank's strategic vision and evolving operational needs. The ADF-12 period will focus on strengthening the capacities and mandates of new departments, including the office of the COO and the departments it oversees (the Programming and Budget Department, the Quality Assurance and Results Department, and OpsCom); the Energy, Environment and Climate Change Department; and the Integrity and Anti-Corruption Department. The Bank will ensure that these departments are adequately resourced in terms of staff, budgets, and authority, so that they may implement their mandates and meet operational objectives.
- 4.13 Decentralization. The ongoing process to develop a "Decentralization Road Map" has allowed the Bank to articulate a comprehensive and realistic strategy that reflects both internal lessons and the good practices and norms of other institutions. The road map also balances the needs of diverse ADF clients with the Bank's limited resources. Noting the important role that decentralization can play, Deputies supported Management's plan to expand the scope of the Bank Group's services in the field by (i) increasing the Bank's presence in fragile states and (ii) expanding the quality and quantity of field services and the number of field staff with

technical or sector expertise. These actions will be underpinned by enhanced business process reforms and the delegation of more authority. Deputies encouraged Management to ensure an appropriately phased incremental decentralization process that adds measurable value in improving operational effectiveness and supplies Field Offices with adequate staff and appropriate decision-making authority, resources, oversight, and fiduciary safeguards. Stressing the need to balance better development effectiveness through decentralization, on one hand, and effective risk management, on the other, Deputies also asked Management to ensure that Field Office fiduciary capacity is robust to enable effective delegation of procurement and disbursement responsibilities. In that regard, fiduciary experts including Regional Procurement Coordinators and Financial Management Coordinators, as well as locally recruited procurement officers and assistants, are posted in Field Offices to carry out fiduciary responsibilities in project cycle activities, accompanied by compliance oversight and quality control from the central unit. Concerning the control environment, Management is currently piloting the use of professional-level Administrative and Finance Officers in the Field Offices. Participants also noted Management's continued discussions on enhanced field presence with the Board of Directors.

- 4.14 Communication and Disclosure. Participants acknowledged that measures implemented by the Bank Group's Communication Strategy during ADF-11 are starting to show results. The Bank's website is experiencing increased traffic and stimulating greater awareness. Demand for Bank products is growing, and credible relationships with both international and national media have been built. The public has better access to information on ADF-supported projects, both in terms of content and in terms of navigability. Participants supported the Bank's commitment to refine and scale up its internal and external communications by enhancing the content, utility, and navigational ease of its external website; upgrading internal IT portals; expanding the range of its print products and multimedia services and improving public access to information. The Bank Group is committed to ensuring accessibility of information by all stakeholders, including communities with which it engages. To this end, it will continue to consult with local partners and civil society organizations on the most effective approach to ensuring the dissemination of information to local communities. This effort will also be informed by the ongoing review of the Bank Group's environmental and social safeguards policy and operational guidelines, lessons from the work of the Independent Review Mechanism, the Bank Group's ongoing engagement with Civil Society Organizations and international best practices (see paragraphs 4.23 and 4.24 and 4.27).
- 4.15 Deputies welcomed Management's commitment to review the Bank Group's disclosure policy to meet the highest standards and international best practices. In doing so, the Bank will liaise closely with other multilateral development banks to harmonize measures and will pay particular attention to areas where additional efforts or innovative approaches may be warranted, especially as regards the participation of regional member countries. Deputies noted that the review will include elements such as (i) strengthening the Bank Group's presumption of disclosure, eliminating the positive list and emphasizing a limited "negative list"; (ii) releasing Board or Committee minutes; (iii) introducing an independent appeals mechanism; and (iv) disclosing project-level results. A revised disclosure policy will be submitted to the Board of Directors for approval in late 2010.
- 4.16 Knowledge Activities. Participants supported the Bank Group's commitment to build on its work in ADF-11 to strengthen the coverage and thematic scope of its knowledge products. In ADF-12, the Bank Group will continue to generate knowledge products that contribute to its institutional and operational effectiveness; develop regional member countries' capacity for better policy making; strengthen countries' statistical capacity (including for gender disaggregation); and conduct quality, policy-oriented research on development challenges. The Bank Group will strengthen its flagship publications (especially recently launched series, such as regional and country infrastructure reports) with the view to providing in-depth analyses on topical issues relevant to its strategic priorities and distilling best practices and emerging evidence. It will also widen dissemination and improve the content, quality, and accessibility of its databases and web-based publications.

### ***Enhancing Institutional Integrity and Strengthening Safeguards***

- 4.17 Institutional Integrity. Participants welcomed the Bank Group's increased attention to fighting corruption and promoting integrity. The Bank established an Anti-Corruption and Fraud Investigation Division during ADF-11 to review and investigate fraud and corrupt practices in order to maximize the use and development impact of funds entrusted to the Bank. With systems and best practices in this important area evolving as of late, the Bank has refined the structure of the Bank Group's integrity unit and separated its internal audit functions from its investigation and integrity functions, creating different departments that report directly to the President, including the Integrity and Anti Corruption Department. The Bank's elevation and strengthening of these functions will tighten adherence to the highest standards of corporate governance at all levels and will promote integrity in the Fund's use of resources and the execution of Fund-financed operations.
- 4.18 In ADF-12, the Office of the Auditor General will expand its activities to accommodate the increase in risks that may result from the growth in the number of Bank operations, financing instruments, Field Offices, and private sector operations. Starting in 2010, the Auditor General will increase the frequency of Field Offices audits from once every 4 to 5 years to once every 2 to 3 years, eventually once every 1 to 2 years.
- 4.19 Participants welcomed the Bank Group's participation—along with other multilateral development banks—in the recently signed *Agreement for Mutual Enforcement of Debarment Decisions* (the "Cross-Debarment Agreement"). They noted that the modalities for mutual enforcement of the Agreement, which require close cooperation, coordination and information sharing among participating institutions, are in line with the Bank Group's commitment to strengthen its aid effectiveness and reinforce donor harmonization. Management is committed to moving forward on implementation of the cross-debarment agreement. The Bank Group will start publishing the list of debarred companies on its website once internal operational arrangements have been finalized by end-2010.
- 4.20 Strengthening Risk Management Capacity. In light of the growing volume of private sector activities (including in ADF countries and operations) and following the general capital increase, the Bank has made strengthening risk management capacity a key area of proactive engagement. Following a review of the Bank's risk management practices by an external firm in late 2009, the Bank will implement a risk management reform plan designed to strengthen its risk governance structure, improve the credit approval process, and manage operational risks.
- 4.21 Fiduciary Safeguards and Procurement Processes. Under the oversight of the Procurement and Fiduciary Services Department, the Bank Group will continue to refer to international best practices and clear and effective procurement rules to improve its procurement services and reduce its operational risks through strong fiduciary controls, better accountability and transparency, continuous review, and enhanced fiduciary oversight. Building on measures already in place, the Bank will continue to pay particular attention to building internal capacity to implement and regularly monitor adherence to Bank rules and procedures. In the context of ongoing decentralization, special attention will be paid to strengthening Field Offices' fiduciary management capacity while maintaining centralized oversight, monitoring and review.
- 4.22 As part of its commitment to strengthen the use of country systems and country ownership, the Bank Group will (i) provide technical support to increase borrowers' accountability and build their procurement and public financial management capacity with a view to augmenting the number of countries whose financial management systems are acceptable to the Bank; (ii) provide support to modernize country systems; (iii) assist borrowers with upfront project work—i.e., better design, planning, analysis, and quality at entry; and (iv) ensure an integrated approach to the implementation and supervision of public financial management functions in country systems. Internally, the Bank Group will continue to fine-tune its public financial management and procurement framework and processes so as to further reduce procurement processing times, lower transaction costs, enhance quality control and improve overall service standards.

- 4.23 Environmental and Social Safeguards. Deputies supported the Bank Group's ongoing efforts to update and consolidate its environmental and social safeguard policies and procedures during the ADF-12 period. In parallel, the Bank is developing stricter systems to categorize projects and monitor compliance with environmental and social management plans. Deputies acknowledged the Quality Assurance and Results Department's work to deepen the implementation of environmental and social safeguards. They also lauded Bank initiatives to harmonize its policies with those of other multilateral development banks. These measures include revitalizing staff training; enhancing cross-Complex collaboration and knowledge sharing through the new Environmental and Social Safeguards Network; and creating a help desk that gives staff rapid, one-on-one help understanding and applying safeguards. The Bank Group will report annually on the quality at entry of operations, including their social and environmental dimensions, based on analysis of operations' Readiness Reviews. An update on the quality at entry of social and environmental matters will be provided at the ADF-12 Mid-Term Review.
- 4.24 Independent Review Mechanism (IRM). Deputies supported the establishment of the Bank Group's IRM, whose purpose is to respond to complaints from people who allege risking adverse affects from Bank Group-financed projects that they claim do not comply with the Bank Group's policies and procedures. As the Bank Group expands its lending activities, in particular for large infrastructure projects, it is important that an effective, transparent and independent process be in place to handle complaints. Noting that the Bank Group's Boards of Directors are currently considering the 2009 review of the Bank's experience with the IRM during its first 3 years of operation, the Deputies highlighted the importance of strengthening the IRM's independence from Bank Management and operations. They also instructed that the IRM be accessible to project-affected people and communities. The Deputies welcomed outreach activities to inform people and communities of the existence, mandate and procedures of the IRM, and approved the Bank Group's plan to mainstream information about the IRM into ADB/ADF policies and project documents.

#### ***Coordination, Harmonization and Partnerships***

- 4.25 Implementation of the Paris Declaration. Participants noted that the Bank Group has increased the effectiveness of its assistance and made important progress toward meeting some of the targets laid out in the 2005 Paris Declaration on Aid Effectiveness, especially as regards using country systems and reducing parallel project implementation units. However, like many other donors, the Bank Group is unlikely to meet all 2010 Paris Declaration targets, and must step up its efforts. Management remains strongly committed to the Bank Group's engagements with respect to implementing the Paris Declaration and the Accra Agenda for Action and to improving the Bank's performance. Management is developing a Road Map on Aid Effectiveness for discussion by the Boards of the Bank Group in September 2010. Backed by high-level political commitment for implementing aid effectiveness reforms, the Road Map sets out an invigorated and strategically focused approach to guide the Bank's engagement and the systems for internalizing the monitoring of the Paris Declaration indicators as a way of operationalizing and mainstreaming Paris Declaration commitments across the Bank Group. To this end, the Bank will take the following actions: (i) raise awareness through top-level communication; (ii) build incentives that support aid effectiveness commitments; (iii) internally monitor the Paris indicators; and (iv) more effectively use its role as a regional platform to expand support and outreach on aid effectiveness at country and regional levels.
- 4.26 Strategic Partnerships. Participants supported the Bank Group's efforts to strengthen its collaboration and strategic partnerships with client countries, traditional and emerging donors, development partners, regional organizations, academic and knowledge institutions, and private sector actors. They noted that the Bank Group's recently streamlined and modernized trust fund procedures will allow it to use bilateral and multidonor trust funds in a more integrated manner while forging proactive new partnerships that are fully aligned and complementary to its strategic priorities, especially as regards fragile states, climate change initiatives, governance, infrastructure, and regional operations. The Bank is currently working with regional member countries to enhance the capacities of African negotiators involved in the United Nations Framework Convention on Climate Change negotiations. At their request, the Bank has recruited a legal expert to support the negotiators in the process and provide

training on carbon finance issues. Under ADF-12, this support will be extended to other United Nations conventions, such as those on biodiversity, desertification and persistent organic pollutants

- 4.27 Strategic Engagement with Civil Society Organizations (CSOs). Participants supported the Bank Group's actions to strengthen its dialogue and engagement with CSOs, both at Headquarters and at the country level. The Bank is in the process of reviewing and consolidating its CSO engagement framework and has set out a number of milestones, including (i) reviewing the Bank's CSO policy to take stakeholders in regional member countries into consideration; (ii) expanding and accelerating the work of the ADB/CSO committee to create a platform for dialogue and stakeholder participation; (iii) tap into regional partner and CSO networks to harmonize engagement; and (iv) establish a CSO accreditation mechanism to further strengthen accountability and integrity among CSOs. Within the context of implementing operations, the Bank will concentrate on improving staff capacity in consultations and participatory approaches, especially in fragile states.

## 5. Resource Allocation, Financing Terms, and Financing Instruments

### *Country Eligibility*

- 5.1 Deputies agreed that ADF resources would continue to be channeled to the poorest countries. Country eligibility will be determined by assessing gross national income per capita, creditworthiness, and performance. Annual Debt Sustainability Analyses will be used to determine the risk of debt distress of each beneficiary country and set appropriate financing terms. As stipulated in the ADB's Credit Policy, the World Bank's assessments of creditworthiness and income levels will be used to categorize countries as follows (Annex IV):
- Category A: Countries not deemed creditworthy for non-concessional financing and whose income levels are below the operational cut-off will only have access to ADF resources, while countries not deemed creditworthy for non-concessional financing but whose income levels are above the operational cut-off (gap countries) will only have access to ADF funds with modified financing terms at par with those of blend countries (paragraph 5.3);
  - Category B: Countries deemed creditworthy for non-concessional financing but whose income levels are below the operational cut-off will have access to a blend of ADB and ADF resources (blend financing); and
  - Category C: Countries deemed creditworthy for non-concessional financing and whose income levels are above the operational cut-off will only have access to ADB resources.
- 5.2 The resource eligibility rule for Category A countries will have two exceptions: (i) access to the Bank's private sector window, and (ii) access to non-concessional resources for enclave projects, provided that these projects meet the conditions set out in the Bank's policy and contravene no condition stipulated in a program funded by the International Monetary Fund and/or the World Bank.
- 5.3 Deputies endorsed Management's proposals for country classifications, differentiated financing terms, and the development of a graduation policy, and recommended the following measures, subject to approval by the Board of Directors:
- Country Classification: Refine Category A to distinguish gap countries, that is, countries not deemed creditworthy for non-concessional financing but whose income levels are above the operational cut-off.
  - Differentiated Financing Terms: Apply differentiated ADF loan financing terms to blend, gap and graduating countries, namely 30 years' maturity, a grace period of 8 years, and an interest rate of 1 percent.

- Graduation Policy: Include the following features in the Graduation Policy to be developed by Management: (i) maintain the Credit Policy according to which countries are determined as eligible for ADF resources only, for a blend of ADF and ADB resources, or for ADB resources only, on the basis of per capita income and creditworthiness for non-concessional financing as determined by the World Bank; (ii) tailor the length and modalities of the graduation process to each country context; and (iii) gradually phase out ADF resources and phase in ADB resources. Phasing out should take place over a period of 2 to 5 years or 1 to 2 ADF cycles from the time that the country has met both income and creditworthiness criteria. Countries' continued eligibility for ADF resources and the allocation of ADF resources should be determined for each new ADF period.

### ***Performance-Based Allocations***

- 5.4 Participants affirmed that country performance would continue to drive resource allocation decisions and that the PBA system would continue to anchor the ADF's resource allocation mechanism in ADF-12. At least 91 percent of ADF-12 resources will be allocated on the basis of country performance through direct PBAs (67 percent) and PBA-linked set-asides (24 percent). The PBA-linked set-asides concern two areas: (i) the supplemental support (Pillar 1) of the FSF, which is a 2-times multiplier of eligible countries' ADF-11 PBAs; and (ii) cost-shared regional operations, whereby the costs borne by the regional operations envelope are twice the amount covered from countries' PBAs. As elaborated in paragraph 3.17, regional operations will undergo a rigorous selection and prioritization process in which criteria such as quality at entry, expected development outcomes and impacts, the weighted CPIA scores of participating countries, and the performance of participating countries in ongoing and past regional operations will play an important role.
- 5.5 Participants agreed that the Fund would use the PBA framework adopted in ADF-11 and that the following core elements would drive country allocations (details in Annex V):
- Available resources will be allocated using the PBA formula. This formula has two main determinants: country need, given by the gross national income per capita (GNI/P) and country population; and country performance, as determined by the Country Performance Assessment (CPA) rating. The CPA rating will be made up of three components: (i) the average score of CPIA clusters A, B, and C; (ii) a Governance Factor made up of five criteria from CPIA cluster D; and (iii) the Country Portfolio Performance Rating (CPPR), which will count actual problem projects to assess countries' portfolio performance. The CPPR will use a compressed project rating scale and quarterly updated data.
  - Country performance rating =  $(0.26 \text{ CPIA}_{A-C} + 0.58 \text{ CPIA}_D + 0.16 \text{ CPPR})$
  - Country allocations =  $f(\text{country performance rating}^4, \text{population}, \text{GNI/P}^{-0.125})$
- 5.6 In addition, the following operational procedures will be applied:
- Individual country allocations may not exceed 10 percent of all resources available to ADF-only countries. The cap will be applied at the basic allocation stage, i.e., on the initial results of the PBA process. Any excess over capped amounts will be reallocated to the rest of ADF-only countries using the PBA formula.
  - A base or minimum of UA 5 million will be applied for all countries.
  - Financing terms and grant shares of ADF-12 PBA resources will be determined on the basis of the annual Debt Sustainability Framework traffic light classification of countries (paragraph 5.9).
  - Resources provided by donors to compensate the Fund for the Multilateral Debt Relief Initiative will be reallocated to all ADF-only countries through a netting-out mechanism (paragraph 5.10).

- 5.7 Each blend country will receive 50 percent of what it would receive if it were an ADF-only country, subject to the minimum allocation of UA 5 million for all ADF-eligible countries. The replacement of the aggregate 5 percent cap for blend countries by country-specific caps will better respond to a range of country circumstances and align ADF policy more closely with the policies of other multilateral development banks.
- 5.8 Participants agreed that while no changes would be introduced to the PBA formula during the ADF-12 period, Management should continue to explore options, in collaboration with sister institutions, to better take countries' structural vulnerability into account in the resource allocation system. Further discussions on potential modifications to the PBA formula should be brought forward at the ADF-12 Mid-Term Review.

#### ***Application of the Debt Sustainability Framework and Grant Financing***

- 5.9 Deputies agreed that ADF-12 financing terms and the share of grants would continue to be determined by the country-by-country analysis of the risk of debt distress conducted in annual Debt Sustainability Analyses and the classification of countries in policy-dependent categories of high, moderate and low risk of debt distress (see 2010 classification in Annex VI). The Fund will continue to apply the Modified Volume Approach, under which a 20 percent discount is applied to grants. The 20 percent discount will be divided into two parts: (i) an incentive-related portion of 5.43 percent designed to strengthen the Fund's incentive system; and (ii) a charges-related portion of 14.57 percent that will cover foregone charges on ADF-11 grants. Fragile states will only be subject to the charges-related volume discount.

#### ***Multilateral Debt Relief Initiative Netting Out***

- 5.10 As previously agreed, the foregone debt service payments of countries that qualify for debt relief under the Multilateral Debt Relief Initiative (MDRI) will be deducted from these countries' allocations using the MDRI netting-out mechanism. The PBA system will be used to reallocate the resources provided by donors to compensate the ADF for the MDRI, to all ADF-only countries. Management will continue to regularly monitor the impact of MDRI netting out on beneficiary countries in the outer years (2020-2038), when the bulk of MDRI cancelled debts is due. Management will also continue to share lessons and experiences with sister institutions through multilateral development bank working groups on debt issues and other relevant fora.

#### ***Special Resource Allocations***

- 5.11 Deputies renewed their commitment to dedicate a portion of ADF-12 resources to special set-asides for regional operations and fragile states.
- **Regional Operations:** UA 1,157 million, 20 percent of the ADF-12 allocable envelope, will be set aside for regional operations under ADF-12. ADF-eligible countries participating in regional operations will contribute one-third of project costs from their PBA, while two-thirds of costs will be paid from the regional operations envelope. For countries whose PBA totals UA 20 million or less, the contribution will be capped at 10 percent of the PBA. The total allocation to regional public goods will not exceed 15 percent of the total resources in the regional operations envelope.
  - **Fragile States Facility:** UA 764 million will be transferred to the FSF under ADF-12. Within the FSF, these resources will be allocated as follows: UA 405 million to the Supplemental Support Window (Pillar I) to top up the regular PBAs of beneficiary countries with a 2x multiple of the average of the two highest PBAs under ADF-11, and UA 359 million to the Arrears Clearance Window (Pillar II) to support the timely and internationally coordinated re-engagement of countries that qualify for arrears clearance. At the ADF-12 Mid-Term Review, Management will report on the status of utilization of Pillar II resources and will recommend the reallocation of unused Pillar II resources to the PBA pool, if applicable. As regards the Targeted Assistance Window (Pillar III), the balance of unused resources from ADF-11<sup>11</sup> will be rolled over to ADF-

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<sup>11</sup> As at end-August 2010, this balance was UA 58.96 million.

12 and no additional resources from the ADF-12 replenishment will be earmarked for this pillar.

### ***Reallocation of Resources***

- 5.12 All unused PBA resources from non-performing countries will be reallocated to the PBA pool during the third year of the replenishment. These resources will be reallocated to all performing ADF countries on the basis of the PBA system. The decision on the disposition of FSF resources unused at the end of the ADF-12 cycle will be made by Deputies in the context of Thirteenth General Replenishment of the African Development Fund (ADF-13) discussions.
- 5.13 As regards the disposition of unused ADF-11 resources, Deputies agreed that (i) the balance of unused FSF Pillars I, II and III resource at end-2010 will be carried over to ADF-12 within the same pillar, and (ii) unused resources in the PBA and Regional Operations envelopes will be carried over to ADF-12 and folded into the allocable pool of ADF-12 PBA resources.

### ***Resource Allocation by End Use***

- 5.14 All available ADF-12 resources, including internally generated resources, ADB net income transfers, carryover from ADF-11 and any additional funds, will be allocated as follows after deducting technical contingencies<sup>12</sup>:
- Country Allocations: At least 67 percent of ADF-12 resources will be allocated through the PBA system to support specific investment projects and programs and technical assistance operations.
  - Allocations to Regional Operations and Fragile States: 20 percent of all available ADF-12 resources will be allocated to the regional operations envelope and UA 764 million will be allocated to the fragile states envelope.
  - With 72 percent of the total set-aside resources linked to PBAs, performance will continue to be the main determinant of allocations within the envelopes for regional operations and FSF Pillar I. At least 85 percent of the regional operations envelope (i.e., all envelope resources minus the 15 percent allocated to regional public goods) will be linked to PBAs through the cost-sharing arrangement and a robust project selection and prioritization modality in which performance is a key criterion. Similarly, at least 53 percent of FSF resources (i.e. all resources in Pillar I) will be linked to PBAs.
  - The largest proportion of these resources will be allocated to Category A countries.
  - Resources for Category B countries will be determined by country-specific caps.

### ***Financing Instruments***

- 5.15 Deputies agreed that ADF-12 resources would be channeled through a mix of financing instruments best suited to the needs and capacities of ADF clients. Where applicable, this mix should create synergies between ADF and ADB instruments.
- Project and Program Loans and Grants: These instruments comprise project and program loans and grants, including multinational projects, sector investments, lines of credit, and sovereign equity participation in public-private partnerships. Project investments through loans and grants will continue to be the primary vehicle for Fund support in ADF-12.
  - Policy-Based Operations: PBOs will continue to serve as an important instrument for channeling ADF resources to governance operations that help countries implement reform programs, build capacity, strengthen institutions, and increase spending on poverty reduction priorities. Resources provided through PBOs shall not exceed 25 percent of the PBA envelope.

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<sup>12</sup> These include contingency for acceleration (2 percent of donor subscriptions), contingency for subscription exchange rate (1 percent of donor subscriptions) and contingency for qualified or unsubscribed contributions (UA 350 million).

- Partial Risk Guarantees: PRGs will be introduced in ADF-12 with a view to leveraging private sector financing and incentivizing governments to undertake the policy and fiscal reforms necessary to mitigate performance-related risks. Countries will use their PBA resources to finance their participation in PRGs as per provisions and modalities that will be presented to the Board of Directors for approval by end-2010.

## 6. ADF-12 Financial Management and Replenishment Framework

### *Compensation for Debt Relief and Grant Financing*

- 6.1 Compensation for the Multilateral Debt Relief Initiative. Donors have agreed to compensate the Fund for foregone principal reflows from loans cancelled under the MDRI on a dollar-for-dollar basis, using the pay-as-you-go approach, and to preserve the level of the Advance Commitment Capacity (ACC) in future replenishments by making commitments over a rolling 13-year window to match the disbursements of future ADF replenishments. The MDRI coverage ratio is the weighted average of qualified and unqualified commitments received from donors to cover their share of MDRI costs over the relevant ADF disbursement period. Unqualified commitments are factored in at 100 percent and qualified commitments are factored in at 90 percent. The 10 percent discount on qualified commitments reflects uncertainty in the timeliness of payments. Deputies noted that unqualified commitments and timely payment are essential for preserving the integrity of the ACC, and that over-commitment because of delayed payments negatively impacts the Fund's liquidity and the ACC of future replenishments.
- 6.2 Compensation for Grants. To mitigate the reduction of future reflows resulting from increased grant financing, Deputies agreed to maintain the same approach for ADF-12 as for previous replenishments. Specifically, income that is foregone due to grants is compensated by an upfront charge on grants, while foregone principal reflows are offset as they arise during future replenishments using the "pay-as-you-go" approach. Donor payment commitments will be based on donors' respective burden shares. Compensation for ADF-9 grants is scheduled to start in 2013.

### *Advance Commitment Authority*

- 6.3 Introduced in ADF-10, the Advance Commitment Authority maximizes the Fund's commitment capacity from internally generated resources while ensuring the ADF's financial integrity. The ACC computation for ADF-12 assumes, inter alia, (i) a grant level of 30.65 percent with an upfront charge of 14.57 percent to compensate foregone income flows; (ii) MDRI compensation ratio of 90 percent; (iii) ADB net income transfers of UA 35 million per year; and (iv) resources coming from loan cancellations of UA 100 million per year. Annex VII presents a more detailed table regarding the core ADF-12 ACC assumptions.
- 6.4 Deputies approved the assumptions underlying the ACC and endorsed Management's proposal of an ACC level of UA 2,007 million.

### *ADB Transfers and Administrative Costs*

- 6.5 ADB Transfers. Deputies acknowledged the Bank's extraordinary effort in maximizing net income allocations to the ADF. During the ADF-11 cycle, the Bank transferred UA 100 million of its net income, exceeding its target of UA 60 million by a significant margin. For the ADF-12 period, Management will recommend to the Board of Governors a net income allocation of at least UA 35 million per year (UA 105 million in total), subject to the Bank's financial strength and the net income generated.
- 6.6 Deputies supported Management's commitment to propose, for the consideration of the Bank's Board of Governors, an annual allocation through the FSF to the ADF of as much of the income generated from arrears clearances as the Bank's financial capacity permits.

- 6.7 Cost Sharing Administrative Expenses. The Fund reimburses the Bank for the fair value of the ADF's use of the human resources, organization, services, and facilities of the Bank in accordance with arrangements between the Bank and the ADF. This reimbursement of administrative expenses (the management fee) affects the Fund's operating income and therefore the ACC. Based on initial findings from a review of the cost-sharing formula undertaken by Management in 2010, a proposal to refine the parameters of the current methodology is being discussed by the Boards of Directors. The refinement is likely to lower the ADF cost share during the ADF-12 replenishment period.

### ***Burden Sharing***

- 6.8 Deputies agreed on a technical gap of 7.40 percent in the Fund's burden-sharing framework. This will give State Participants the flexibility to increase their burden share during a particular replenishment without exceeding the target replenishment level. It will also accommodate the subscriptions of new donors and otherwise increased or additional subscriptions received during the life of a replenishment.

### ***Replenishment Level and Other Resources***

- 6.9 Deputies agreed on a resource level of UA 6,096,731,479 for the ADF-12 replenishment period (2011–2013). The ADF-12 replenishment comprises of
- donor subscriptions of UA 3,756,810,946;
  - supplementary contributions of UA 30,111,681;
  - an ACC of UA 2,007,340,552; and
  - a 7.40 percent technical gap.

### ***Effectiveness, Subscription Schemes and Procedures, and Encashment Schedule***

- 6.10 Deputies agreed on the terms and conditions of effectiveness, the subscription procedures, and the advanced and standard encashment schedules for ADF-12 subscriptions, including exchange rates and payment dates (Annex VII).

### ***Prospective New State Participants***

- 6.11 The Bank Group is finalizing arrangements for Turkey's and Luxembourg's participation in the Fund and membership in the Bank. Deputies also welcomed the participation of Egypt, a potential new State Participant, in the ADF-12 negotiations. Deputies encouraged staff to continue their efforts to attract new State Participants—whether RMCs or non-regional countries—to the Fund.

## **7. Mid-Term Review**

- 7.1 Participants agreed that ADF-supported operations would be reviewed during the second year of the ADF-12 period. The review will take place 18 months after ADF-12's entry into force and before the release of the last tranche of ADF-12 resources.
- 7.2 The review will discuss progress in implementing the commitments laid out in this report and other ADF-related issues, in particular:
- The implementation of operational priorities, including progress on climate change and implementation of Energy Policy;
  - The allocation and use of resources, including the implementation of FSF Pillar II (the Arrears Clearance Window) and potential modifications to the PBA system;
  - Results under ADF-12, including an update on the quality at entry of social and environmental concerns and lessons learned from the independent evaluations of PBOs, ADF's assistance to fragile states and regional operations;

- Progress on institutional reforms and commitments made under the Paris Declaration and the Accra Agenda for Action;
- The cost-effectiveness of the ADF replenishment process and the length of the replenishment cycle; and
- The long-term financial capacity of the ADF.

## **8. Selection of the ADF-13 Coordinator**

- 8.1 Deputies will select a chairperson for the ADF-13 negotiations in an open process by/at the ADF-12 Mid-Term Review.

## **9. Recommendations**

- 9.1 Deputies of State Participants of the ADF and Representatives of borrowing countries approved the contents of this Report in Tunis, Tunisia on 8 September 2010.

**Annex I: ADF-12 Implementation Matrix**

**ADF-12 Implementation Matrix (Jan.2011– Dec. 2013)**

	<b>Issue</b>	<b>Commitment</b>	<b>Action</b>	<b>Target Date</b>
<b>1. Strategic and Operational Focus</b>				
1.1	Progress Report	<ul style="list-style-type: none"> <li>Implementation of ADF core operational priorities: infrastructure, governance, regional integration and fragile states</li> <li>Resource allocation and use, including implementation of FSF Pillar II and potential modification to the PBA</li> </ul>	<ul style="list-style-type: none"> <li>Report to Deputies</li> </ul>	<ul style="list-style-type: none"> <li>ADF-12 MTR</li> </ul>
1.2	Governance	<ul style="list-style-type: none"> <li>Adoption of consolidated Fiduciary Risk Management Framework</li> <li>Independent evaluation of PBOs</li> <li>Adoption of consolidated PBO policy</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> <li>Board Approval</li> <li>Board Approval</li> </ul>	<ul style="list-style-type: none"> <li>Q3 2010</li> <li>Q1 2011</li> <li>Q2 2011</li> </ul>
1.3	Regional Operations	<ul style="list-style-type: none"> <li>Independent evaluation of regional operations</li> <li>Adoption of Framework paper on project selection and prioritization, including stronger link to performance</li> <li>Develop and adopt 4 Regional Integration Strategy Papers</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> <li>Board Approval</li> <li>Board Approval</li> </ul>	<ul style="list-style-type: none"> <li>Q4 2011</li> <li>Q1 2011</li> <li>Q4 2010</li> </ul>
1.4	Private Sector Development: New Financing Instruments	<ul style="list-style-type: none"> <li>Finalize and rollout Partial Risk Guarantee instrument</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval; Progress Report</li> </ul>	<ul style="list-style-type: none"> <li>Q1 2011, ADF-12 MTR</li> </ul>
1.5	Climate Change	<ul style="list-style-type: none"> <li>Implementation of Climate Change Action Plan</li> <li>Adoption of Energy Policy</li> </ul>	<ul style="list-style-type: none"> <li>Progress Report to the Board, MTR</li> <li>Board Adoption of Policy</li> </ul>	<ul style="list-style-type: none"> <li>ADF-12 MTR</li> <li>Q1 2011</li> </ul>
1.6	Gender	<ul style="list-style-type: none"> <li>Update Gender Action Plan- 2011 onward; Adoption of Revised Gender Strategy</li> <li>Synthesis Report on Review of International Experience in Gender Mainstreaming</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> <li>Board Approval</li> </ul>	<ul style="list-style-type: none"> <li>Q4 2011</li> <li>Q4 2010</li> </ul>
1.7	Fragile States	<ul style="list-style-type: none"> <li>Independent evaluation of ADF assistance to fragile states</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> </ul>	<ul style="list-style-type: none"> <li>Q2 2011</li> </ul>
<b>2. Development Effectiveness and Managing for Results</b>				
2.8	ADF-12 Results Measurement Framework (RMF)	<ul style="list-style-type: none"> <li>Adoption of revised Bank Group RMF (2011-2013)</li> <li>Adoption of Supervision Guidelines</li> <li>Monitoring of implementation of ADF-12 RMF and revise targets/indicators as needed</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> <li>Board Approval</li> <li>Annual Board report; MTR report</li> </ul>	<ul style="list-style-type: none"> <li>Q4 2010</li> <li>Q1 2011</li> <li>Ongoing; MTR</li> </ul>
2.9	Paris Declaration on Aid Effectiveness	<ul style="list-style-type: none"> <li>Review of internal rules and procedures and adoption of policy on aid effectiveness</li> <li>Monitor implementation of Aid Effectiveness Road Map</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> <li>Annual Board Report, MTR report</li> </ul>	<ul style="list-style-type: none"> <li>Q4 2010</li> <li>Ongoing, MTR</li> </ul>

	Issue	Commitment	Action	Target Date
<b>3. Delivery Capacity and Institutional Effectiveness</b>				
3.10	Human Resources (HR)	<ul style="list-style-type: none"> <li>Adoption of updated Staff Compensation Framework and Retirement Plan</li> <li>Decentralization of HR functions</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> <li>Progress report to the Board</li> </ul>	<ul style="list-style-type: none"> <li>Q1 2012</li> <li>Q1 2012</li> </ul>
3.11	Decentralization	<ul style="list-style-type: none"> <li>Approval of Decentralization Road Map</li> <li>Implementation of Delegation of Authority Matrix for Procurement, Fiduciary Safeguards and Operations.</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> <li>Progress Report to Management and the Board</li> </ul>	<ul style="list-style-type: none"> <li>Q3 2010</li> <li>Q1 2011</li> </ul>
3.12	Disclosure, Communication and Civil Society Engagement	<ul style="list-style-type: none"> <li>Adoption of Revised Disclosure Policy</li> <li>Monitor implementation of Communications Strategy</li> <li>Adoption of Revised Civil Society Engagement Framework</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> <li>Progress Report to the Board</li> <li>Board Approval</li> </ul>	<ul style="list-style-type: none"> <li>Q4 2010</li> <li>Q4 2010</li> <li>Q3 2011</li> </ul>
3.13	Fiduciary Safeguards and Procurement	<ul style="list-style-type: none"> <li>Periodic (at least once every 2-3 years) audit by OAGL of field offices</li> <li>Monitor the effective implementation of Bank Group's Fiduciary Safeguards, and; the submission of project audit reports and adherence to financing agreements by borrowers</li> <li>Independent Annual Post Procurement Review of (sample) Bank Group operations</li> </ul>	<ul style="list-style-type: none"> <li>Report to the Board</li> <li>Progress Report to Management and the Board</li> <li>Report to the Board</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> <li>Ongoing</li> <li>Annual</li> </ul>
3.14	Environmental and Social Safeguards	<ul style="list-style-type: none"> <li>Adoption of Revised Environmental and Social Safeguards Policy and Operational Guidelines</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval, MTR report</li> </ul>	<ul style="list-style-type: none"> <li>Q4 2011, MTR</li> </ul>
<b>4. Resource Allocation and Financial Management</b>				
4.15	Financing terms for blend countries	<ul style="list-style-type: none"> <li>Adoption of differentiated financing terms for blend countries</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> </ul>	<ul style="list-style-type: none"> <li>Q4 2010</li> </ul>
4.16	Graduation policy	<ul style="list-style-type: none"> <li>Adoption of Graduation Policy</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> </ul>	<ul style="list-style-type: none"> <li>Q1 2011</li> </ul>
4.17	Non-concessional borrowing policy	<ul style="list-style-type: none"> <li>Adoption of Revised Non-Concessional Borrowing Policy and Operational Guidelines</li> </ul>	<ul style="list-style-type: none"> <li>Board Approval</li> </ul>	<ul style="list-style-type: none"> <li>Q4 2010</li> </ul>

## **Annex II: Strategic and Operational Framework for the Partial Risk Guarantee Instrument**

Strategic Objective: Partial risk guarantees (PRGs) increase the feasibility of public-private partnerships (PPPs) by guaranteeing the performance of the public partner in a PPP. The African Development Fund (ADF or Fund)'s PRGs will insure private investors against specific, well-defined risks related to the failure of a government or a government-owned entity to honor its commitments. These risks typically include political force majeure (i.e., expropriation), currency inconvertibility, regulatory risk (adverse changes of the law), and various forms of breach of contract (e.g., subsidies or government or government-owned entity payments under off-take or supply agreements). Governments have an incentive to implement reforms and to perform, as non-performance triggers cross-default.

Financing: Countries wishing to use an ADF PRG will be required to use a portion of their Performance-Based Allocation (PBA). Of the guaranteed amount, 25 percent will be deducted from the country's PBA and transferred to an accounting pool dedicated to insuring against the default of any and all outstanding PRGs, not just the PRGs of the country in question. Countries will be restricted to using no more than 25 percent of their total PBA for PRGs. With fourfold leverage, this figure caps the total guaranteed amount at 100 percent of a country's PBA for any given cycle, but enables the country to access funding equivalent to 175 percent of its ADF allocation: 100 percent in the form of the guaranteed amount (for which 25 percent of the PBA would be deducted) and the balance, 75 percent, for regular assistance funded through the PBA.

Eligibility: All ADF-countries and blend countries will be eligible.

Policy and Operational Guidelines: Building on the lessons learned in sister institutions, the Fund will elaborate implementation details (for instance, the risks to be covered) in operational guidelines to be approved by the Board of Directors before 31 December 2010.

The instrument will have the following key features:

- The instrument will replicate ADF concessional funding terms and propose lower-than-market guarantee fees (around 75 basis points). □
- A counter-guarantee will be required from the host government.
- As per lessons learned from sister institutions, 25 percent of the guaranteed amount will be deducted from the country's PBA and transferred into a dedicated pool to cover all outstanding guarantees.
- Guaranteed amounts will be limited to a country's PBA for any given cycle, thus enabling the country to access funding equivalent to 175 percent of its ADF allocation. The country will draw upon its remaining PBA (75 percent) using the other financing instruments outlined in its Country Strategy Paper.
- Guarantees will be restricted to government performance risk. They will not cover private sector performance risk.
- Guarantees will be non-accelerable: that is, payments from the ADF to lenders will only be made when due and cannot be accelerated.
- Lenders with preferred creditor status will not be eligible for coverage.
- Guarantees will be available in the Bank's lending currency as well as in local currency.

## Annex III: The ADF-12 Results Measurement Framework

**Table III-1: Level-1 Indicators for Development Outcomes in ADF Countries**

Indicator	Baseline	
	Year	Value
<b>Growth and Poverty Reduction</b>		
GDP per capita (2000 constant US\$)	2009	405
Population living below \$1.25/day (PPP)	2005	53.6
Income Inequality (GNI Index)	2005	42.1
<b>Governance and Transparency</b>		
Public Expenditure and Financial Accountability score (1 to 7)	2008	3.1
Worldwide governance indicators avg. score (-2.5 to 2.5)	2008	-0.95
Extractive Industries Transparency Initiative (% compliance)	2009	40.0
<b>Regional Integration and Trade</b>		
Africa's share of global trade (%)	2008	3.4
Inter-African trade (US\$ billions)	2008	43
<b>Fragile and Conflict-Affected Countries</b>		
Average CPIA of fragile countries (Avg. CPIA)	2008	2.71
Number of fragile countries (CPIA<3.2) (countries)	2005	20
<b>Private Sector Development and Investment Climate</b>		
Cost required for business start-up* (% GNI per capita)	2009	107.8
Time required for business start-up* (days)	2009	40.8
Global competitiveness index ranking (1 to 7)	2009	3.4
Staple crops yield index (2002 value = 100)	2008	108
<b>Infrastructure Development</b>		
Access to an improved water source (% population)	2008	57.5
Access to improved sanitation facilities (% population)	2008	28.2
Access to all-season roads (% rural population)	2008	35
Household electrification rate (% of households)	2008	28.5
Fixed lines and mobile phone subscribers (per 1,000 population)	2008	283
Internet users (per 1,000 population)	2008	42
<b>Clean Energy</b>		
Combustible renewable and waste (% of total energy)	2007	78.8
<b>Gender and Human Development</b>		
Under-5 child mortality (per 1,000 live births)	2009	145
Ratio of girls to boys in primary and secondary school (%)	2007	86
Primary school completion rate (%)	2007	54
Employment to population gender indicator** (index)	2007	0.74
Maternal mortality (per 1,000 live births)	2009	813

**Note:** For a detailed discussion of indicators for Level 1, 3 and 4, see Annex I of the ADF-12 Discussion Paper "Results Measurement Framework for the ADF-12 Period (2011-13)" Abidjan, 2010.

\*Values are available for all African countries.

\*\*This indicator measures the ratio of women employed compared to the ratio of men employed relative to the respective working age population.

**Table III-2: Level-2 Core Sector Indicators for All Sectors in ADF Countries**

Transport, Power and Information Communications Technology	
<ul style="list-style-type: none"> <li><input type="checkbox"/> Households, businesses or community facilities served with access to modern/improved energy (<i>number</i>)</li> <li><input type="checkbox"/> People that can access all season public transportation within 2 km of their homes, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> Traffic accidents and mortality along the transport project (<i>number per year</i>)</li> <li><input type="checkbox"/> Households, businesses or community facilities served with access to information technology (<i>number</i>)</li> <li><input type="checkbox"/> Household expenditures devoted to energy (<i>monthly amount</i>)</li> <li><input type="checkbox"/> Household expenditures devoted to transport (<i>monthly amount</i>)</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Household expenditures devoted to information technology (<i>monthly amount</i>)</li> <li><input type="checkbox"/> Average speed for goods and for passengers along the transport project, from origin to end (<i>km/h</i>)</li> <li><input type="checkbox"/> Roads constructed or rehabilitated, of which are rural (<i>km</i>)</li> <li><input type="checkbox"/> Roads in good and fair condition as a share of total classified roads (%)</li> <li><input type="checkbox"/> National citizens employed in the construction, operation and maintenance of the infrastructure project, <b>of which are female</b> (<i>number per month, % per month</i>)</li> <li><input type="checkbox"/> Broadband networks built or rehabilitated (<i>km</i>)</li> <li><input type="checkbox"/> Non-renewable power output capacity (<i>mw</i>)</li> </ul>
Water Supply & Sanitation	
<ul style="list-style-type: none"> <li><input type="checkbox"/> People with access to improved drinking water sources, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> People with access to improved sanitation, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> Additional potable and non-potable (<i>for irrigation</i>) water production capacity at a community water point (<i>liters</i>)</li> <li><input type="checkbox"/> New piped household water connections (<i>number</i>)</li> <li><input type="checkbox"/> Additional or rehabilitated sewage treatment capacity (<i>liters</i>)</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> New household sewer connections (<i>number</i>)</li> <li><input type="checkbox"/> New on-site sanitation measures (individual, grouped) (<i>number</i>)</li> <li><input type="checkbox"/> People educated through hygiene programs, <b>of which are female</b> (<i>number, percentage</i>)</li> <li><input type="checkbox"/> New collective bodies (committees, associations, groups) formed to manage the use of water responsibly <b>of which include women as members</b> (<i>number, %</i>)</li> </ul>
Regional Integration	
<ul style="list-style-type: none"> <li><input type="checkbox"/> Cross-border transmission lines constructed or rehabilitated (<i>number, km</i>)</li> <li><input type="checkbox"/> New telecommunication networks that serve more than one country (<i>number</i>)</li> <li><input type="checkbox"/> Cross-border railways constructed or rehabilitated (<i>number, km</i>)</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Time spent to clear a truck at the border (<i>minutes</i>)</li> <li><input type="checkbox"/> Cross-border roads constructed or rehabilitated (<i>number, km</i>)</li> <li><input type="checkbox"/> Amount of road maintenance needs financed by the Bank (%)</li> </ul>
Climate Change and Clean Energy	
<ul style="list-style-type: none"> <li><input type="checkbox"/> People trained in climate resilient agricultural practices, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> Agriculture-related climate resilient interventions (<i>number</i>)</li> <li><input type="checkbox"/> Railways constructed or rehabilitated (<i>km</i>)</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Renewable power output capacity installed (<i>mw</i>)</li> <li><input type="checkbox"/> Surface of Forest protected, reforested or rehabilitated (<i>ha</i>)</li> </ul>
Education, Health and Social Protection	
<ul style="list-style-type: none"> <li><input type="checkbox"/> People employed in small scale and artisan enterprises, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> People enrolled in tertiary education, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> People trained in basic microfinance and business skills, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> People served by micro-finance institutions, <b>of which are female</b> (<i>number, %</i>)</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Classrooms and laboratories constructed, renovated, and/or equipped (<i>number</i>)</li> <li><input type="checkbox"/> Teachers trained as a result of project intervention, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> Health workers trained, <b>of which are female</b> (<i>number, %</i>)</li> <li><input type="checkbox"/> Health facilities constructed, renovated, and/or equipped (<i>number</i>)</li> </ul>
Economic & Financial Governance	
<ul style="list-style-type: none"> <li><input type="checkbox"/> Time to start a business (<i>number of days</i>)</li> <li><input type="checkbox"/> Share of private sector credit to total credit provided in the country (%)</li> <li><input type="checkbox"/> Time it takes for an enterprise to pay taxes (<i>number of hours per year</i>)</li> <li><input type="checkbox"/> Time it takes for the Executive to submit the Budget to the Legislature relative to the start of the fiscal year (<i>number of days</i>)</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Number of contracts awarded on the basis of open competition as a percentage of all contracts awarded in a given year (<i>number, %</i>)</li> <li><input type="checkbox"/> Time it takes for the Auditor General to submit the most recent annual audit report on the public accounts to the Legislature (<i>number of months</i>)</li> </ul>
Private Sector Operations	
<ul style="list-style-type: none"> <li><input type="checkbox"/> Permanent jobs created by the project (<i>number</i>)</li> <li><input type="checkbox"/> Value of the net financial flows to the government</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Rate of business success</li> <li><input type="checkbox"/> <b>Share of female permanent employment (%)</b></li> </ul>
Agriculture and Agro-industries	
<ul style="list-style-type: none"> <li><input type="checkbox"/> Crop yield increase (<i>tons/ha</i>)</li> <li><input type="checkbox"/> Post-harvest loss reduction (%)</li> <li><input type="checkbox"/> People trained in the agricultural sector, <b>of which are female</b> (<i>number, %</i>)</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Crop production increase (<i>tons</i>)</li> <li><input type="checkbox"/> Water mobilized for multi-purpose, including water for agriculture (<i>cubic meters</i>)</li> <li><input type="checkbox"/> Land irrigated (<i>hectares</i>)</li> </ul>

**Table III-3: Level-3 Indicators of Operational Effectiveness of the Bank Group**

Indicator		Baseline Year	Baseline Value	Target Value
<b>Quality At Entry</b>				
Country Strategy Papers rated satisfactory	(%)	2009	n.a	95
Operations rated satisfactory	(%)	2009	44	95
Regional operations rates satisfactory	(%)	2009	n.a	90
Budget support disbursed on schedule	(%)	2009	60	75
Elapsed time from approval to first disbursement	(months)	2009	13	12
Operations that disclose the ESAS on time	(%)	2009	n.a	90
<b>Portfolio Performance</b>				
Operations formally supervised twice a year	(%)	2009	61	65
Problem projects in the ongoing portfolio	(%)	2009	6	5
Disbursement rate of the ongoing portfolio (invest. only)	(%)	2009	18	20
Operations eligible for cancellation	(%)	2009	20	10
<b>Paris Declaration Indicators of Effective Aid</b>				
Development resources recorded on budgets	(%)	2007	62	85
Use of country public financial management systems	(%)	2007	37	53
Predictable disbursements	(%)	2007	54	80
Number of parallel project implementation units	(units)	2007	121	40
<b>Knowledge Management</b>				
Exiting projects with a timely Project Completion Report	(%)	2009	92	95
Project Completion Reports rated satisfactory	(%)	2009	72	80
<b>Gender Mainstreaming</b>				
Project Completion Reports with gender-disaggregated data	(%)	2009	56	75
New projects and CSPs with at least 1 gender eq. indicator	(%)	2009	n.a	50
<b>Climate Change</b>				
Climate proofed projects	(%)	2009	n.a	15

**Table III-4: Level-4 Indicators of Organizational Efficiency of the Bank Group**

Indicator		Baseline Year	Baseline Value	Target Value
<b>Business Processes and Practices</b>				
Lapse of time for bidding completion	(weeks)	2009	63	40
Lapse of time for procurement	(months)	2008	15.9	11
Administrative costs per UA 1 million disbursed	(UA thousands)	2009	109	93
<b>Human Resources</b>				
Share of women among professional staff	(%)	2009	26	33
Operational professional staff	(%)	2009	62	65
Staff premature attrition rate	(%)	2009	11	6
Vacancy rate	(%)	2009	12.3	5
<b>Decentralization</b>				
Operations professional staff based in field offices	(%)	2009	26	40
Projects task-managed from field offices	(%)	2009	16	35
<b>Information Technology</b>				
Average time taken to resolve client IT requests	(hrs)	2009	5	4.5
Time of unavailability of Wide Area Network in Field Offices	(hrs)	2009	175	150
<b>Transparency</b>				
Project audits submitted on time	(%)	2009	n.a	80

## Annex IV: Classification of Regional Member Countries in ADF-12

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### A. Countries Eligible for ADF Resources Only\*

Benin  
Burkina Faso  
Burundi  
Cameroon  
Central African Republic  
Chad  
Comoros  
Congo Republic\*\*  
Congo, Democratic Republic  
Côte d'Ivoire  
Djibouti  
Eritrea  
Ethiopia  
Gambia  
Ghana  
Guinea  
Guinea-Bissau  
Kenya  
Lesotho  
Liberia  
Madagascar  
Malawi  
Mali  
Mauritania  
Mozambique  
Niger  
Rwanda  
Sao Tomé and Príncipe  
Senegal  
Sierra Leone  
Somalia  
Sudan  
Tanzania  
Togo  
Uganda  
Zambia

### B. Countries Eligible for a Blend of ADB and ADF Resources

Angola\*\*\*  
Cape Verde  
Nigeria  
Zimbabwe

### C. Countries Eligible for ADB Resources Only

Algeria  
Botswana  
Egypt  
Equatorial Guinea  
Gabon  
Libya \*\*\*\*  
Mauritius  
Morocco  
Namibia  
Seychelles  
South Africa  
Swaziland  
Tunisia

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**Note:** \* Except for limited ADB lending for enclave and private sector projects  
\*\* Gap Countries (differentiated ADF loan financing terms at par with blend countries)  
\*\*\*Pending Board discussion in late 2010 of Management's proposal to classify Angola as blend country  
\*\*\*\*Libya is not a Borrowing Member Country

## Annex V: PBA Framework for ADF-12

The allocation of available African Development Fund (ADF) resources to ADF-eligible regional member countries (RMCs) for projects, programs and technical assistance during ADF-12 will be a three-step process. First, resources will be allocated to eligible countries using the Performance-Based Allocation (PBA) formula. Second, country-specific financing terms (loan, grant, or loan/grant combination) will be determined using the Debt Sustainability Framework (DSF). Third, Multilateral Debt Relief Initiative (MDRI) debt relief to eligible RMCs will be netted out of those countries' allocations and donor replacement funds will be reallocated to all ADF-only RMCs.

### First Step: Applying the PBA Formula

Available resources will be allocated using the PBA formula:

$$A_i = (CPA_i)^4 \times \left(\frac{GNI}{P}\right)_i^{-0.125} \times P_i^1$$
$$CPA_i = 0.26 CPIA_{(A-C)_i} + 0.58 GR_i + 0.16 CPPR_{(REV)_i}$$

Where: $A_i$	is the allocation for country $i$
$CPA_i$	is the country performance assessment for country $i$
$(GNI/P)_i$	is the gross national income per capita for country $i$
$CPIA_{(A-C)_i}$	is the Country Policy and Institutional Assessment for country $i$
$GR_i$	is the governance rating for country $i$
$CPPR_{(REV)_i}$	is the revised Country Portfolio Performance Rating for country $i$
$P_i$	is the population for country $i$

The PBA formula has two main determinants:

- country need as indicated by gross national income per capita (GNI/P) and country population (P);
- country performance as per the country performance assessment score (CPA).

An increase in GNI/P will decrease the per capita allocation, while an increase in the CPA caused by the net positive impact of CPIA, GR and CPPR will increase the per capita allocation. The population variable (P) converts per capita country allocations to total country allocations. Countries with relatively high populations will be allocated more resources in absolute terms.

In addition, the following procedures will be applied:

- Single country allocations will not be permitted to exceed 10 percent of all resources available to ADF-only countries. The cap will be applied at the basic allocation stage, i.e., on the initial results of the PBA process. Any excess over capped amounts will be reallocated to the rest of the ADF-only countries using the PBA formula.
- A minimum allocation of UA 5 million will be applied to all countries.

### Second Step: Using the Debt Sustainability Framework and the Modified Volume Approach

The DSF is used to determine each country's risk of debt distress. It is based on two criteria: the institutional strength and quality of a country's policies to withstand debt distress, and country-specific debt burden indicators (namely, the net present value of debt/gross domestic product ratio, the net present value of debt/exports ratio, and the debt service/exports ratio). Countries are classified by three "traffic lights," where red indicates a high risk of debt distress, yellow indicates a moderate risk, and green indicates a low risk. Countries in the red category qualify for 100 percent grants, countries in the green category qualify for 100 percent loans, and countries in the yellow category qualify for a 50/50 loan/grant combination.

A modified volume approach will be applied under ADF-12. The primary purpose of the approach is to cover administrative charges for grant allocations up front and to strengthen the incentive structure of the PBA system. The approach will apply a 20 percent volume discount to all grants. This discount will be sub-divided into a 14.57 percent charges-related portion and a 5.43 percent incentives-related portion. The incentives-related portion will then be reallocated to all ADF-only countries, using the PBA method, to help reinforce the PBA system's incentive structure. The PBA-related country

allocations of fragile states eligible for grants will be subject to the charges-related discount of 14.57 percent. These countries will be excluded from the allocation of the incentives-related portion of the volume discount. The discount on grants will not apply to top-up allocations under Pillar I of the Fragile States Facility.

***Third Step: Multilateral Debt Relief Initiative Netting Out***

The foregone debt service payments of countries qualifying for debt relief under the MDRI are deducted from these countries' allocations through the MDRI netting-out mechanism. Resources provided by donors to compensate the ADF for the MDRI are reallocated to all ADF-only countries using the PBA system.

***Resource Allocation to Blend Countries***

Each blend country will receive 50 percent of what it would receive if it were an ADF-only country, subject to the minimum allocation of UA 5 million for all ADF-eligible countries. The removal of an aggregate 5 percent cap for blend countries is designed to better respond to a range of country circumstances and align ADF policy more closely with other MDBs.

**Annex VI: 2010 Debt Sustainability Framework Classification and ADF Financing Mix for Individual Countries**

<b>Country Category</b>	<b>2010 DSF Traffic Light Classification</b>	<b>Grants in 2010 (%)</b>
<b>ADF-Only Countries</b>		
Angola	Yellow	50%
Benin	Yellow	50%
Burkina Faso	Red	100%
Burundi	Red	100%
Cameroon	Green	0%
Cape Verde*	Green	0%
Central African Republic	Red	100%
Chad	Yellow	50%
Comoros	Red	100%
Congo DRC	Red	100%
Congo, Rep. Of	Red	100%
Cote d'Ivoire	Red	100%
Djibouti	Red	100%
Eritrea	Red	100%
Ethiopia	Yellow	50%
Gambia	Red	100%
Ghana	Yellow	50%
Guinea	Red	100%
Guinea-Bissau	Red	100%
Kenya	Green	0%
Lesotho	Yellow	50%
Liberia	Red	100%
Madagascar	Green	0%
Malawi	Yellow	50%
Mali	Green	0%
Mauritania	Yellow	50%
Mozambique	Green	0%
Niger	Yellow	50%
Rwanda	Yellow	50%
Sao Tome & Principe	Red	100%
Senegal	Green	0%
Sierra Leone	Yellow	50%
Somalia	Red	100%
Sudan	Red	100%
Tanzania	Green	0%
Togo	Red	100%
Uganda	Green	0%
Zambia	Green	0%
<b>Blend Countries</b>		
Nigeria	Green	0%
Zimbabwe	Green	0%

**Note:** *\*Although the Boards of Directors approved the reclassification of Cape Verde as a blend country in October 2009, it was agreed that it be treated as an ADF-only country during the 2010 ADF-11 allocation process.*

## Annex VII: Key Elements of the ADF-12 Financial Framework

Deputies approved the Advance Commitment Capacity (ACC) assumptions, the technical provisions for subscription procedures, and the terms and conditions for the ADF-12 Financial Framework as follows:

### I. The Advance Commitment Capacity

**Table VII-1: Core Assumptions Underlying the ADF-12 Advance Commitment Capacity**

	Core Assumptions	ADF-12
Donor Contributions in Future Replenishments	To establish the baseline scenario, donor subscriptions for future replenishments are conservatively assumed to remain unchanged in real terms. I.e., the nominal amounts are assumed to increase by the assumed cumulative rate of inflation over the previous replenishment period.	4.49%
Timeliness of receipt of MDRI Compensation	In addition to regular contributions, donors pledged to cover 100 percent of MDRI costs for all heavily indebted poor countries (on forgone principal and interest) by making additional contributions to future replenishments on a pay-as-you-go basis without leaving a financing gap.	90%
Grant Share in Replenishment	The grant level for the replenishment is determined as per the debt sustainability analysis.	30.65%
Compensation for Grants	In addition to regular contributions, donors would finance the foregone principal reflows that result from grant extensions by making additional contributions on a pay-as-you-go basis. Foregone charges income would be offset by an upfront grant charge.	14.57%
Administrative Expenses	These expenses are based on the relevant budget program and are set to increase annually thereafter by 3%. The ADB/ADF cost sharing formula will be reviewed.	3%
ADB Transfers Per Year	Constant annual transfer from ADB net income, in UA millions	35
Repayment Sensitivity Factor	To account for delayed repayments by countries in arrears to the Fund, repayment flows are maintained constant as a percentage of expected loan repayments.	90%
Disbursement Sensitivity Factor	To account for grant compensation and loan cancellations, reductions in disbursement flows are maintained constant at a percentage of signed loans.	95.18%
Investment Return Rate	The rate of return of the investment portfolio	Forward curve
Minimum Prudential Level of Annual Liquidity	As a percentage of the 3-year moving average of net disbursements	75%
Loan Cancellations	Constant annual cancellations in nominal terms, in UA millions	100
Accelerated Encashment	Proportion of 20% of total donor subscriptions assumed to be encashed under the 3-year accelerated mechanism at 95.87% of face value	20%

### II. Subscription Procedures

**Exchange rates:** ADF-12 subscriptions may be denominated in (i) Special Drawing Rights (SDRs), (ii) an SDR component currency (the US dollar, the euro, the Japanese yen or the pound sterling), or (iii) Donors' own national currency, provided that this currency is freely convertible and that the average domestic inflation rate has not surpassed 10 percent in the preceding 3 years. Deputies also agreed to use the average of the SDR/foreign exchange rates from 1 December 2009 to 31 May 2010 as the ADF-12 replenishment exchange rates.

**Payment:** The payment date of the ADF-12 subscription shall be changed from 30 April to 15 January. This will mitigate disruptions in operations by ensuring adequate commitment capacity in the first months of the year, particularly in years when frontloading might occur. The Fund recognizes that because of internal legislative processes, some donors will not be in a position to pay their subscription before 30 April.

Encashment: The standard encashment schedule for ADF-12 will mirror the projected disbursement profile of loan and grant commitments funded by the replenishment, while ensuring that the level of the Fund's liquid resources that results from the encashment of promissory notes respects the Fund's liquidity policy.

**Table VII-2: Standard Encashment Schedule for ADF-12**

Encashment Year	Encashment Percentage
2011	5.03%
2012	10.34%
2013	14.76%
2014	15.07%
2015	12.99%
2016	11.17%
2017	10.14%
2018	9.13%
2019	8.33%
2020	3.04%

Accelerated Encashment: Donors have the option of accelerating the rate of encashment of their subscriptions by selecting a customized encashment schedule. To determine the amount to be credited to State Participants who opt to accelerate the encashment of their subscriptions, the Fund will base currency-specific discount rates on the Commercial Interest Reference Rate (CIRR) for credits up to 5 years, adjusted downwards by 100 basis points and applicable as of April 2010. The accelerated encashment model used by the Fund to compute the discount or the credit applicable to encashments paid in advance has been revised to better reflect the size and the timing of the cash flows received.

### ***III. Terms and Conditions for Effectiveness and Subscription***

After consideration of the issues for which provisions have been made in the ADF-12 Resolution, Deputies established the following terms and conditions for subscriptions in respect of the Twelfth Replenishment:

- The Replenishment will come into effect when the Fund has received the Instruments of Subscription representing an aggregate amount equivalent to at least 30 per cent of total Subscriptions (the "Effective Date"). It is expected that this level of subscription will be attained by a date that is no later than 1 January 2011 or any other later date that the Board of Directors may determine;
- In order to enable the Fund to meet operational commitments before the entry into effect of the Twelfth Replenishment, the Fund, in addition to the ability to commit ACC resources after the ADF-12 Resolution has been approved, is authorized, when the level of subscriptions received aggregates 20 per cent of total pledges, to use for operational commitment an amount equivalent to the first commitment tranche of each Instrument of Subscription received before the Effective Date, unless the subscribing State Participant specifies otherwise when depositing its Instrument of Subscription. This Advance Subscription Scheme will be implemented without prejudice to the Advance Facility Scheme under which any State Participant may authorize the use of any portion of its subscription for commitment purposes before the entry into effect of the Twelfth Replenishment;
- Subscriptions may, in exceptional cases, be qualified and State Participants intending to do so will notify the Fund to that effect. Such qualified subscriptions shall be subject to the conditions specified in the Resolution;

- Subscription pledges listed in the Annex to the Resolution on the Twelfth Replenishment have been determined in Units of Account (UA) and have been converted into Units of Obligation of the individual State Participants on the basis of daily average exchange rates, expressed in terms of Currency Units per SDR as given by the IMF for the six-month period commencing 1 December 2009 and ending on and including 31 May 2010. Subscriptions shall be denominated in (a) SDR of the IMF, (b) a currency used for the valuation of the SDR, or (c) the currency of the individual State Participant. In the later case, however, if the economy of a State Participant has experienced a rate of inflation in excess of 10 per cent per annum in the period 1 January 2008 - 31 December 2010, as determined by the Fund, the State Participant's Subscription will be denominated in SDRs or, at the option of the State Participant, in a currency used for the valuation of the SDR;
- Subscriptions will carry voting power in the manner specified in the Resolution on the Twelfth Replenishment to the extent that they have been paid for. However, if the Twelfth Replenishment has not entered into effect by 1 January 2011, Advance Subscriptions will carry voting power to the extent of payment;
- Terms of payment have been determined such that the Fund will have the resources it needs to operate satisfactorily and to reflect the multilateral character of the Twelfth Replenishment. Payment in respect of each subscription will be made in three equal annual installments, of which the first installment will be made on or before 15 January 2011 or 30 days after the Effective Date, whichever is earlier, with the second and third installments falling due respectively on or before 15 January 2012 and 15 January 2013. Any State participant may, by a written declaration, indicate to the Fund that it intends to make payment at earlier dates or in fewer installments or different proportions not less favorable to the Fund than those specified in this or in the next paragraph.
- As an exceptional case when a State Participant cannot, due to its legislative procedures, make payment in respect of the first installment by the stated date, payment in respect of that installment should be made within 30 days of the deposit of its Instrument of Subscription. Subsequent payments in respect of qualified subscriptions shall be made within 30 days as and to the extent that the relevant installment becomes unqualified and subject to the annual 2 payment dates specified for unqualified subscriptions. A State Participant which has deposited a Qualified Instrument of Subscription shall inform the Fund of the status of its subscription (i.e., whether legislative approval has been received or not) not later than 30 days after the annual payment dates specified for unqualified subscriptions;
- At the time of depositing its Instrument of Subscription, each State Participant shall indicate to the Fund its proposed program of installment payments;
- Encashment of notes shall be in accordance with the replenishment specific (fixed schedule) encashment system, adopted by the Board of Directors in March 2000. The encashment schedule shall cover a period of 10 years from 2011 to 2020. A standard encashment schedule shall be prepared for each State Participant in its currency of obligation, using the profile indicated in Schedule I hereto. Should a State Participant wish to adopt an encashment schedule other than the standard, the Fund shall agree with the State Participant on a revised encashment schedule for its unqualified subscription that yields at least an equivalent value to the Fund in present value terms;
- The size of each commitment tranche will be equal to one-third of the amount of total subscriptions;
- The rules governing the commitment of each of the three tranches have been formulated in such a way that the first tranche will be committed from the Effective Date (or before that date, if it is an Advance Subscription); the second tranche from 1 January 2012, or the Effective Date, whichever is later; and the third tranche from 1 January 2013 or the Effective Date whichever is later.

## Annex VIII: General Capital Increase Reform Commitments

### Matrix of Institutional Reforms and Anticipated Impacts – *Going Forward*

Area of Reform	Key Action	Anticipated	Timeframe
Risk Management Capacity	Definition of the Bank's risk appetite	Common understanding of risk appetite within the institution	4th quarter 2010
	Completion of the risk dashboard	Better institutional oversight and monitoring of risks	4th quarter 2011
	Repositioning of the risk functions	Implementation of an enterprise risk management framework and strengthen risk governance	4th quarter 2010
	Reinforcement of risk management functions through adequate staffing, systems and processes	Strengthen risk capacity	1 <sup>st</sup> quarter 2011
	Creation of a new credit committee	Greater focus on credit risk monitoring and related issues.	4th quarter 2010
	Ensure an adequate capacity to cover increase in investigations and audits.	Enhanced ability to deal with potential increase fraud / corruption issues	1 <sup>st</sup> quarter 2011
	Phased approach to strengthen operational risk control functions, resources and tools	Enhanced focus on operational risks and control.  Improved reporting on qualitative and quantitative assessment of Operational Risk	on going  completion in 4 <sup>th</sup> quarter 2012
	Automate the credit risk approval workflow  Review of systems, applications, and data integrity for risk management.	Ensure an improved monitoring of the credit approval process  More efficient use of IT to improve risk management efficiency	4th quarter 2010  2nd quarter 2011 for the improved IT infrastructure
Business Processes and Organization	Creation of the Energy, Environment and Climate Change Department	Spearhead the Bank's operations in energy, environment and climate change	2 <sup>nd</sup> quarter 2010
Human Resources	Conducting of the Staff Survey	Enhanced Responsiveness to staff views	Every 2-3 years Next survey mid 2010
	Compensation Framework and retirement plan that are competitive and financially sustainable.	Improved Recruitment and retention	2012, with annual updates
	Decentralization of Human resource function	Improved responsiveness to client needs; improved services	Completion of Business Processing, end Q4 2010
Decentralization	Decentralization Guidelines	Empowered Field Office Teams Increased Field Office portfolio management	2012
	Establishment of Offices in non-regional member states	Improve communication, knowledge of the Bank and Africa	Feasibility study completed by 4 <sup>th</sup> quarter 2010

Area of Reform	Key Action	Anticipated	Timeframe
Quality-at-Entry and Managing for Results	Introduction of the readiness review and quality at entry standards for CSPs	Enhanced quality at entry of operations	2010
	Simplified project logframes supported by staff training on the use of logframes	Improved portfolio performance indicators	2010 new logframe and 2011-2012 training
	Guidelines for the timely delivery of Project Completion Reports		Further enhancement in 2010
	Revision of project supervision Reports	Improved results on the ground and capacity to track and report results (outputs and outcomes)	2010
	Introduction of core sector indicators and pilot results reporting system		
	Bank-wide results management framework.	Stronger link between resource allocation and performance	Proposal ready by 1 <sup>st</sup> semester 2010
MTS Review and Long-term Strategy	Review of the MTS is ongoing. This will inform the preparation of a long-term strategy for the Bank to match its vision as the economic motor and knowledge platform of Africa.  Mid -Term Review of the 2008-2010 Business Plan for Private Sector Operations	Clearer view of the long-term priorities of the Bank. Better support to RMCs in areas where the Bank has demonstrated comparative advantage. Improved operational efficiency and Effectiveness Streamlined organizational structure Enhanced strategic focus and coordination across the Private Sector Development ("PSD") Triangle	MTS Review: June 2010 Long-term strategy: 2011 Board discussion of the PS Mid-Term Review document by April 2010
Income Model	Develop a comprehensive Income Model integrating : <ul style="list-style-type: none"> <li>• Loan pricing including the coverage of administrative Expenses.</li> <li>• Income Allocation including targeted minimum annual transfers to ADF of UA 35 m.p.a. (in real terms) and at least 75% of post reserves net income allocated to low-income country support.</li> <li>• Review of Capital Adequacy Framework.</li> <li>• Effective administrative expense management.</li> </ul>	Enhance the financial sustainability of the Bank	4th quarter 2010
Integrated Urban Development Strategy	Update Bank's approach to urban development	An integrated approach to urban development including climate change concerns	3rd quarter 2010
Disclosure Policy	Revision of the Bank's disclosure policy and practice, to meet the highest standards applied by other Multilateral Financial institutions, including the following elements: <ul style="list-style-type: none"> <li>• Strengthen the Bank's presumption of disclosure, eliminating the positive list and emphasizing a limited "negative list".</li> <li>• Release of Board/ Committee Minutes.</li> <li>• Independent appeals mechanism</li> <li>• Disclosure of project-level results.</li> </ul>	Best practices in the disclosure of information to the public.	3rd quarter 2010

Area of Reform	Key Action	Anticipated	Timeframe
Private Sector Development Policy	Draw up a comprehensive policy for the private sector	A coherent guide for Bank's private sector operations	4th quarter 2010
Energy Sector Policy	Preparation of a policy approach for the Bank in the broad area of energy	Improve the Bank's capacity to treat the complicated issues associated with energy operations	1st quarter 2011
Large Loans Policy	Draft policy guidance on how Bank should approach the case of large loans sought by RMCs	Efficient allocation of the Bank's resources	2nd quarter 2010
Review of GCI-Related Reform	OPEV completes a review of progress in meeting above reform commitments.	Enhanced accountability. Demonstration of reform progress to member governments and parliaments.	3rd quarter 2012
Policy based loans policy	Develop policy on modes and delivery of policy based loans (package approach: PBL+Capacity building)	Enhance value added of Bank - contribution	4th quarter 2010
Guidelines political challenges	Develop guidelines on how to react on political challenges (e.g. "De facto governments")	A coherent guide (with AU, REC, UN, EU and others) on how to react on sudden political challenges; clarity on implications for project planning and dialogue	3rd quarter 2010
Budgetary Minimization of Board Enlargement	Identify measures to minimize the budgetary impact of the Board enlargement within the Bank's budget and to give consideration to Board efficiency	Agreement on key issues related to Board efficiency and effectiveness	Ongoing

# AFRICAN DEVELOPMENT FUND

## BOARD OF GOVERNORS

### Resolution F/BG/2010/[ ]

(Adopted by correspondence on [ ] 2010)

#### The Twelfth General Replenishment of the Resources of the African Development Fund

#### THE BOARD OF GOVERNORS,

#### HAVING REGARD TO:

- (i) The relevant Articles of the Agreement (the “Agreement”) Establishing the African Development Fund (the “Fund”), in particular Articles 2 (Purpose), 4 (Resources), 7 (Additional Subscriptions by State Participants), 16 (Form and Terms of Financing), 19 (Technical Assistance), 23 (Board of Governors: Powers) and 26 (Board of Directors: Functions);
- (ii) The Report of the Board of Directors dated 22 October 2010 (**the “Report”**) on the implementation of Resolution F/BG/2009/13 authorizing the commencement of consultations for the twelfth general replenishment of the resources of the Fund (**the “Twelfth Replenishment”**), and in particular the recommendations of the Board of Directors contained in that Report;

#### CONSIDERING THAT:

- (i) In the Report, the Board of Directors, having regard to the needs and development requirements of the poorer and less developed regional members of the African Development Bank (the “Bank”), has recommended that the Fund should undertake a substantial replenishment of its resources to finance the Fund’s concessional lending programme for the three year period commencing **1 January 2011**;
- (ii) The State participants listed in Annex 1 hereto attached, and as the case may be the Bank, have indicated their intention to subscribe or contribute to the Twelfth Replenishment in accordance with the arrangements, terms and conditions set forth in this Resolution, it being understood that no commitment in that regard can be made by the State participants and the Bank until all necessary internal approvals of such State participants and the Bank have been obtained;

#### CONVINCED THAT:

- (i) There may arise a need for a portion of the amount of subscriptions made hereunder to be provided to the Fund as advance subscriptions that may be used for operational commitments before the entry into effect of the Twelfth Replenishment;

- (ii) It is desirable to authorize the Fund to provide financing in the form of grants in addition to loans in the circumstances referred to in the Report, and according to procedures to be determined by the Board of Directors of the Fund;
- (iii) It is desirable to encourage countries that have the economic capacity to be, but are not now, State participants to participate in the Twelfth Replenishment; and
- (iv) It is desirable to administer any remaining funds from previous replenishments during the Twelfth Replenishment;

**RECALLING** the terms of Board of Governors Resolution No F/BG/2006/12 concerning the Multilateral Debt Relief Initiative, and noting the updated cost estimates and the compensation amounts payable by donors during the Twelfth Replenishment disbursement period;

**HEREBY ACCEPTS AND ENDORSES** the final Report on the Consultative Meetings on the Twelfth Replenishment (the “ADF-12 Report”);

**ADOPTS** its conclusions and recommendations; and therefore,

**DECIDES AS FOLLOWS:**

**1. Increase in the Resources of the Fund**

- (a) **Authorization.** The Fund is authorized to proceed with the Twelfth Replenishment for a three-year period commencing **1 January 2011**.
- (b) **Subscriptions by State Participants.** The Fund is authorized to accept, from each of the State participants listed in Annex 1 to this Resolution, a Subscription in the amount specified for each such State participant in the applicable column of Annex 1.
- (c) **Additional Subscriptions and Contributions.** Additional subscriptions and other resources in excess of the amounts indicated in Annex 1 hereto, may be accepted by the Fund with the approval of the Board of Directors and may be counted as part of the resources for the Twelfth Replenishment at the option of the State participant.
- (d) **Relation to Future Replenishments.** No State participant making an additional subscription pursuant to sub-paragraph 1(c) shall be obliged, on the occasion of a future replenishment of the Fund, to increase its subscription solely by reason of having made such an additional Subscription under this Resolution.

*Paragraph 1(a) of the draft Resolution authorizes the Fund to proceed with the Twelfth Replenishment. The proposal contained in the draft Resolution is to fix the Replenishment Period for three years commencing January 1, 2011. Provisions are made in Paragraph 1(c) of the Draft Resolution for the acceptance by the Fund of subscriptions and other resources in excess of the subscription amounts pledged by the State participants (which would be set out in Annex I to the Resolution), subject to approval by the Board of Directors.*

## 2. Instruments of Subscription by State Participants

- (a) **General Clause.** To make a subscription hereunder, each State participant shall deposit with the Fund an Instrument of Subscription formally confirming its intention to subscribe the amount specified in Annex 1 hereto, denominated in terms of the unit of obligation relating to the State participant, as determined pursuant to paragraph 3 hereof.
- (b) **Unqualified Subscription.** Except as specified in sub-paragraph (c) of this paragraph, such Instrument of Subscription shall constitute an unqualified commitment by the concerned State participant to pay the amount subscribed in the manner, and on the terms, set forth or contemplated by this Resolution. For the purpose of this Resolution, such subscription shall be called an “**Unqualified Subscription**”.
- (c) **Qualified Subscription.** As an exceptional case, where an unqualified commitment cannot be given by a State participant due to its legislative practice, the Fund may accept from that State participant an Instrument of Subscription which expressly contains the qualification that payment of all instalments of its subscription, is subject to subsequent budgetary appropriation. Such an Instrument of Subscription shall, however, include an undertaking by the State participant to exercise its best efforts to: (a) obtain such appropriation for the full amount specified in paragraphs 6(b) and 8(b) of this Resolution, by the payment dates indicated in paragraph 6 hereof; and (b) to notify the Fund as soon as the appropriation relative to each instalment is obtained. For the purpose of this Resolution, a subscription in this form shall be called a “**Qualified Subscription**”, but shall be deemed to be unqualified to the extent that appropriation has been obtained.

## 3. Denomination of Subscriptions

State participants shall denominate their subscriptions in Special Drawing Rights of the International Monetary Fund (SDRs), in a currency used for the valuation of the SDR, or in the currency of the State participant if such currency is freely convertible (the “unit of obligation”) and the economy of the State participant did not experience, in the period from **1 January 2008 to 31 December 2010**, a rate of inflation in excess of 10 per cent per annum on average, as determined by the Fund

*The proposal contained in Paragraph 3 is for Subscriptions to be denominated in: (i) SDRs; or (ii) a currency used for the valuation of the SDR – which are currently the United States Dollar, Pound Sterling, Japanese Yen and Euro; or (iii) the currency of the State participant if the currency is freely convertible and provided the economy of the State participant has not experienced a rate of inflation in excess of 10% p.a. on average, as determined by the Fund, during the specified period agreed by the Deputies.*

#### 4. **Effective Date**

The Twelfth Replenishment shall come into effect on the date when State participants shall have deposited with the Fund, Instruments of Subscription representing an aggregate amount equivalent to at least thirty per cent (**30%**) of the **total intended subscriptions set forth in Annex 1 to this Resolution** (hereinafter called “the Effective Date”), provided that this date shall not be later than **1 January 2011** or such later date as the Board of Directors may determine.

#### 5. **Allocation for Grants**

An amount of the total available resources<sup>1</sup> under the Twelfth Replenishment shall be set aside in the form of grants, including grant-based technical assistance, and in accordance with the Debt Sustainability Framework (DSF).

#### 6. **Payment of Subscriptions**

- (a) **Payment Dates**. Except as otherwise provided in this Resolution each subscription made under this Resolution shall be paid in three equal annual instalments in SDRs, currencies used for the valuation of the SDR or in freely convertible currencies acceptable to the Fund. Subject to paragraphs 4 and 8 hereof and unless otherwise determined by the Board of Directors, the first of such instalments shall be paid on or before **15 January 2011**, or not later than 30 days after the Effective Date; with the second and third instalments falling due, respectively, not later than **15 January 2012** and **15 January 2013**. As an exceptional case, where a State participant cannot, due to its legislative procedures, make payment in respect of the first instalment by the date determined pursuant to the second sentence of this sub-paragraph, such instalment shall be paid not later than 30 days after the date of the deposit of the relevant Instrument of Subscription.
- (b) **Payment Dates for Qualified Subscriptions**. Payments in respect of a Qualified Subscription shall be made within 30 days as and to the extent that the relative subscription becomes unqualified and subject to the annual 2 payment dates specified in sub-paragraph (a) above. **A State participant which has deposited an Instrument of Subscription for a Qualified Subscription shall inform the Fund of the status of its subscription not later than 30 days after the annual payment dates specified in sub-paragraph (a) above.**
- (c) **Programme of Payments**. At the time of depositing its Instrument of Subscription, each State participant shall indicate to the Fund its proposed programme of instalment payments on the basis of the arrangements set forth in the foregoing provisions of paragraph 6

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<sup>1</sup> The total available resources refers to the total realizable resources that may be committed by the Fund during the Twelfth Replenishment period and includes the amount of aggregate subscriptions set forth in Annex 1 hereto, resources carried over from previous replenishments and internally generated resources (i.e. Advance Commitment Capacity).

- (d) **Optional Arrangements.** Any State participant may, by a written declaration, indicate to the Fund that it intends to make payment at earlier dates or in fewer instalments or different proportions not less favourable to the Fund than those specified in sub-paragraphs (a) and (b) above.
- (e) **Method of Payment.** Payments in respect of each subscription shall be made in cash or, at the option of the State participant making the payment, by the deposit of non-negotiable non-interest-bearing notes or similar obligations of the State participant, encashable on demand by the Fund at their par value in accordance with the terms of sub-paragraph (f).
- (f) **Encashment of Notes.** Unless otherwise decided by the Board of Directors, the Fund will encash the notes or similar obligations of State participants in accordance with the standard encashment schedule set out in Annex 2, provided that at the request of a State participant, the Fund may agree to vary the total encashment schedule for that State participant. With respect to a State participant that is unable to comply with one or more encashment requests, the Fund may agree with the State participant on a revised encashment schedule for such notes or similar obligations that yields at least an equivalent value to the Fund.
- (g) **Accelerated Encashments.** Notwithstanding paragraph 6(f) of this Resolution, a State participant which makes an Unqualified Subscription may request at the time of the deposit of the Instrument of Subscription or thereafter to pay part of its contribution noted in Annex 1 through the investment income derived from accelerated encashment of its instalment payments, subject to the terms and conditions set out in the Report.
- (h) **Conditions for Payment.** Notwithstanding the foregoing provisions of paragraph 6, no State participant shall be obliged to make any payment except when its subscription has become available for operational commitments as specified in paragraph 8 of this Resolution.

*The proposal contained in Paragraph 6 of the draft Resolution is for subscriptions to be paid in three equal annual instalments in the unit of obligation acceptable to the Fund. Specific proposals are made about when such instalments should be paid. These proposals are subject to agreement by the Deputies. It is worth noting that State participants are allowed to specify earlier payment dates and different proportions provided this optional arrangement is no less favourable to the Fund than the arrangement applicable generally in accordance with the agreement amongst Deputies.*

## 7. Advance Subscriptions

- (a) **Advance Subscription Level.** In order to avoid an interruption in the Fund's ability to make operational commitments pending the effectiveness of the Twelfth Replenishment, and if the Fund shall have received Instruments of Subscription from State participants whose subscriptions aggregate not less than the equivalent of **twenty per cent (20%) of the total amount of intended subscriptions listed in Annex 1 to this Resolution**, the Fund may deem, prior to the Effective Date, an amount equivalent to the first commitment tranche of each subscription for which an Instrument of Subscription has been deposited by a State participant as an advance subscription, unless the State participant specifies otherwise in its Instrument of Subscription. It is understood that this Advance Subscription Scheme shall be implemented without prejudice to the Advance Facility Scheme under which any State participant may authorize the Fund to use any portion of its subscription for commitment purposes before the entry into effect of this Twelfth Replenishment.
- (b) **Uniformity of Terms.** The terms and conditions applicable to subscriptions under this Resolution shall apply also to advance subscriptions until the Effective Date, when such subscriptions shall be deemed to constitute payment towards the amount due from each State participant for its subscription.
- (c) **Interim Voting Rights.** In the event that the Twelfth Replenishment shall not have become effective by **1 January 2011**, voting rights for advance subscriptions shall, to the extent of payment therefore, be allocated to each State participant making an advance subscription as if it had been made as a subscription under this Resolution, and each State participant not making an advance subscription shall have the opportunity to exercise its pre-emptive rights with respect to such subscription on such conditions as the Fund shall specify.
- (d) **Utilisation of Advance Subscriptions for Operational Commitments.** Without prejudice to the provisions of the preceding sub-paragraphs, any State participant may, if it chooses, notify the Fund that its subscription, or a part thereof, shall be regarded as an advance subscription which may be available to the Fund for the purpose of making commitments prior to the attainment of the advance subscription level specified in sub-paragraph (a) of this paragraph. Upon the attainment of the advance subscription level, the provisions set forth in sub-paragraphs (b) and (c) of this paragraph shall be applicable to any amount made available to the Fund pursuant to the provisions hereof.

*Pending the effectiveness of the Twelfth Replenishment, deposit with the Fund of Instruments of Subscription representing not less than 20% of the total amount of intended Subscriptions to be listed in Annex 1 to the Resolution will trigger the Advance Subscription provisions. The rationale for this provision is to minimize any disruption in the operations of the Fund pending the effectiveness of the Twelfth Replenishment. This should also facilitate a smooth transition from the ADF-XI Replenishment period to the ADF-12 Replenishment Period.*

## 8. **Commitment Authority**

- (a) **Unqualified Subscriptions.** For the purpose of operational commitment and financing by the Fund under its operational programme for the period of the Twelfth Replenishment, each Unqualified Subscription shall be divided into three equal tranches, and shall be available for operational commitment as follows:
- (i) the First Tranche: on the Effective Date, provided that advance subscriptions may become available for operational commitment prior to the Effective Date pursuant to paragraph 7 of this Resolution;
  - (ii) the Second Tranche: as from **1 January 2012**; and
  - (iii) the Third Tranche: as from **1 January 2013**.
- (b) **Qualified Subscriptions.** Each Qualified Subscription shall become available for operational commitment as and to the extent that it becomes unqualified; which should occur in tranches of at least one third of the total amount of each subscription during the years **2011, 2012** and **2013**, respectively.
- (c) **Exceptions.** Notwithstanding the preceding sub-paragraphs, any State participant may authorize the use of the tranches of its subscription for operational commitments on a schedule more favourable to the Fund than that specified in sub-paragraphs (a) and (b) above.

*As with previous replenishments, the draft Resolution establishes a clear schedule specifying when the resources subscribed to the Twelfth Replenishment are available for commitment. Specific dates for the release of tranches are proposed in the text. These proposals are subject to approval by the Deputies and would be subject to the effectiveness of the Twelfth Replenishment. Notwithstanding the qualification attached to Qualified Subscriptions and in order to achieve the objective of ensuring that the obligations of State participants are honored at a uniform rate, Qualified Subscriptions are also required to be unqualified and available for operational commitment in the years determined for Unqualified Subscriptions. It is also worth noting that the draft Resolution recognizes an exception to these arrangements in the possibility for a State Participant to authorise the application of a Schedule more favourable to the Fund. In light of the Fund's experience in the application of this exceptional clause during the Seventh Replenishment, attempts have been made to simplify the provisions as well as remove any ambiguities with regard to the procedures. The specific proposals for improvement are highlighted on the text of the draft Resolution.*

## 9. **Consultative Meeting of State Participants**

If, in the course of the Twelfth Replenishment, delays in the deposit of Instruments of Subscription, in the release of tranches of subscription for operational commitment pursuant to paragraph 8 hereof or in the payment of subscriptions cause or threaten to cause a suspension in the Fund's lending or grant operations or otherwise prevent the substantial attainment of the goals of the Twelfth Replenishment, the Fund shall, at the direction of the Board of Directors, convene a meeting of representatives of State participants to review the situation and agree on practical steps aimed at fulfilling the

conditions necessary for the continuation of the Fund's operations or for the substantial attainment of those goals.

## 10. **General**

- (a) **Allocation of Voting Rights.** For the purpose of determining the proportionate share of a State participant of the aggregate votes of the State Participants under Article 29(3) of the Agreement and to the extent that payment has been made, each increase in subscriptions by a State participant hereunder, shall be added to the subscriptions made by it under Articles 6 and 7 of the Agreement on the 31<sup>st</sup> of March, 30<sup>th</sup> of June, 30<sup>th</sup> of September and 31<sup>st</sup> of December of each year beginning with the coming into effect of this Resolution.
- (b) **Acceptance by State Participants.** Each State participant accepts the provisions of sub-paragraph (a) herein to the extent that its acceptance is required under Article 29(3) of the Agreement.
- (c) **Election of Executive Directors.** For the purposes of Article 27(6)(b) of the Agreement, elections for the Board of Directors shall take place during the annual meeting of the Board of Governors of the Fund in the year **2013**.
- (d) **Maintenance of Value.** The rights and obligations of State participants making additional subscriptions pursuant to this Resolution, of other State participants, of the Bank, and of the Fund, in respect of the additional subscriptions provided for in this Resolution shall (except as otherwise provided for in this Resolution) be the same as those which govern the initial subscriptions of original participants made pursuant to Article 6 of the Agreement, save that for the purpose of the valuation of additional subscriptions authorised by this Resolution, paragraphs (1) and (2) of Article 13 of the Agreement are hereby waived and shall not be applicable.

*In accordance with Articles 6, 7 and 13(1) of the Agreement, State participants were under an obligation to maintain the free convertibility and value of the currencies used for their initial subscriptions and subscriptions made under the First Replenishment. Likewise, the Fund under Article 13(2) of the Agreement was obligated to return to a State participant an amount of the State participant's currency if the par value of such participant's currency has increased in terms of the Unit of Account. Since the Second Replenishment, the Fund, the Bank and State participants have agreed to waive the maintenance of value provisions for each replenishment, without adversely affecting the rights and obligations relating to the initial subscriptions and subscriptions under the First Replenishment.*

- (e) **Administration of Subscriptions under previous Replenishments.** On the Effective Date of the Twelfth Replenishment, any funds, receipts, assets or other resources held by the Fund under the previous Replenishments will be administered under the Twelfth Replenishment in accordance with the terms and conditions of the Replenishment. The Fund is authorized to use such funds to provide financing in the form of loans and grants, including technical assistance grants.

- (f) **General Authorization**. The Board of Directors shall take all such measures, as shall be necessary or expedient, for the proper implementation of this Resolution in the light of the policy objectives and the operational guidelines set out in the Report.

## **11. Exchange Rates**

Subscriptions made under this Resolution, as shown against each State participant in Annex 1, have been determined on the basis of daily exchange rates, averaged monthly, expressed in terms of currency units per SDR as given by the International Monetary Fund, for the six months period commencing 1 December 2009 and ending on and including 31 May 2010.

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\* **GENERAL COUNSEL'S NOTE:** The Italicized text in boxes throughout this Resolution is for explanatory purposes only and shall not be binding on State participants.

## SUBSCRIPTIONS TO THE TWELFTH REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND

STATE PARTICIPANTS / ETATS PARTICIPANTS	ADF-12 PLEDGES / INTENTIONS DE SOUSCRIPTIONS AU FAD-12								ADF-9 GRANT COMPENSATION <sup>1</sup> / COMPENSATION DES DONNS DU FAD-9 <sup>1</sup>		TOTAL CONTRIBUTIONS FOR ADF-12 PERIOD CONTRIBUTIONS TOTALES DURANT LA PERIODE DU FAD-12		CHANGE VERSUS ADF-11 EVOLUTION COMPARATIVE FAD-11	
	ADF-12 BURDEN SHARE /	SUBSCRIPTION in UA /	EXCHANGE RATE /	UNIT OF OBLIGATION /	SUBSCRIPTION in CURRENCY /	(%) Change vs ADF-11 in burden share /	(%) Change vs ADF-11 in UA /	(%) Change vs ADF-11 in Ccy /	IN UA /	IN CCY /	IN UA /	IN CCY /	(%) Change vs ADF-11 in UA /	(%) Change vs ADF-11 in Ccy /
	QUOTE-PART DU FAD-12	SOUSCRIPTIONS en UC	TAUX DE CHANGE	DEVISE DE SOUSCRIPTIONS	SOUSCRIPTIONS en DEVISE	(%) Evolution comp. FAD-11 en quote-part	(%) Evolution comp. FAD-11 en UC	(%) Evolution comp. FAD-11 en devise	EN UC	EN DEVISE	EN UC	EN DEVISE	(%) Evolution comp. FAD-11 en UC	(%) Evolution comp. FAD-11 en devise
1 ARGENTINA / ARGENTINE	0,239%	9 771 350	1,53510	USD	15 000 000	-	-	-	-	-	9 771 350	15 000 000	-	-
2 AUSTRIA / AUTRICHE <sup>2, 5, 6</sup>	2,340%	95 706 248	1,12297	EUR	107 475 245	0%	11%	11%	1 037	1 164	95 707 284	107 476 409	11%	11%
3 BELGIUM / BELGIQUE <sup>3, 12, 13</sup>	2,060%	84 241 446	1,12297	EUR	94 600 617	-1%	10%	10%	1 745	1 959	84 243 191	94 602 576	10%	10%
4 BRAZIL / BRESIL	0,235%	9 607 954	1,53510	USD	14 749 170	32%	47%	47%	371	570	9 608 325	14 749 740	47%	47%
5 CANADA / CANADA <sup>4, 6</sup>	4,999%	204 447 958	1,59262	CAD	325 607 906	0%	11%	8%	4 758	7 578	204 452 716	325 615 484	11%	8%
6 CHINA / CHINE <sup>4</sup>	2,052%	83 921 666	1,53510	USD	128 828 150	-5%	5%	6%	1 736	2 665	83 923 403	128 830 815	5%	6%
7 DENMARK / DANEMARK <sup>3, 5</sup>	1,891%	77 325 113	8,35685	DKK	646 194 370	37%	51%	51%	3 172	26 509	77 328 285	646 220 879	51%	51%
8 EGYPT / EGYPT	0,032%	1 302 847	1,53510	USD	2 000 000	-	-	-	-	-	1 302 847	2 000 000	-	-
9 FINLAND / FINLANDE	2,739%	112 023 671	1,12297	EUR	125 799 222	14%	26%	26%	1 586	1 781	112 025 257	125 801 003	26%	26%
10 FRANCE / FRANCE <sup>6</sup>	8,710%	356 198 296	1,12297	EUR	400 000 000	-20%	-12%	-	7 748	8 701	356 206 044	400 008 701	-12%	-
11 GERMANY / ALLEMAGNE <sup>11</sup>	9,472%	387 365 646	1,12297	EUR	435 000 000	-12%	-3%	-	8 834	9 920	387 374 480	435 009 920	-3%	-
12 INDIA / INDE	0,231%	9 427 031	70,36825	INR	663 363 667	32%	47%	65%	184	12 948	9 427 215	663 376 615	47%	65%
13 ITALY / ITALIE <sup>7</sup>	4,751%	194 266 873	1,12297	EUR	218 155 870	-10%	0%	0%	4 547	5 106	194 271 419	218 160 976	0%	0%
14 JAPAN / JAPON <sup>6</sup>	6,715%	274 594 890	139,97830	JPY	38 437 325 866	-5%	5%	-19%	9 323	1 305 010	274 604 213	38 438 630 876	5%	-19%
15 KOREA / COREE	1,317%	53 857 279	1 759,73269	KRW	94 774 413 589	50%	66%	106%	672	1 183 402	53 857 951	94 775 596 991	66%	106%
16 KUWAIT / KOWEIT	0,180%	7 361 325	1,53510	USD	11 300 369	0%	11%	11%	177	271	7 361 501	11 300 640	11%	11%
17 THE NETHERLANDS / PAYS-BAS	4,917%	201 061 742	1,12297	EUR	225 786 304	-10%	0%	0%	3 912	4 393	201 065 654	225 790 698	0%	0%
18 NORWAY / NORVEGE <sup>3, 6</sup>	4,396%	179 774 236	9,09039	NOK	1 634 217 918	-3%	8%	9%	3 743	34 026	179 777 979	1 634 251 944	8%	9%
19 PORTUGAL / PORTUGAL <sup>5</sup>	0,723%	29 564 459	1,12297	EUR	33 200 000	-10%	0%	0%	679	762	29 565 137	33 200 762	0%	0%
20 SAUDI ARABIA / ARABIE SAOUDITE	0,478%	19 542 701	1,53510	USD	30 000 000	8%	19%	20%	571	877	19 543 272	30 000 877	19%	20%
21 SOUTH AFRICA / AFRIQUE DU SUD <sup>9</sup>	0,255%	10 424 062	11,50893	ZAR	119 969 803	32%	46%	55%	125	1 435	10 424 187	119 971 238	46%	55%
22 SPAIN / ESPAGNE <sup>14</sup>	3,000%	122 681 728	1,12297	EUR	137 767 900	0%	11%	11%	2 426	2 725	122 684 154	137 770 625	11%	11%
23 SWEDEN / SUEDE <sup>15</sup>	4,354%	178 035 844	11,15736	SEK	1 986 410 006	0%	11%	19%	4 229	47 190	178 040 074	1 986 457 195	11%	19%
24 SWITZERLAND / SUISSE <sup>5, 6</sup>	2,466%	100 838 741	1,63550	CHF	164 921 761	0%	11%	-	3 172	5 188	100 841 913	164 926 949	11%	-
25 UNITED ARAB EMIRATES / E.A.U	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26 UNITED KINGDOM / ROYAUME-UNI	13,997%	572 397 673	0,99056	GBP	566 994 239	-5%	5%	36%	5 816	5 761	572 403 489	567 000 000	5%	36%
27 UNITED STATES OF AMERICA / ETATS-UNIS <sup>10</sup>	9,319%	381 070 169	1,53510	USD	584 980 816	12%	24%	25%	12 497	19 184	381 082 666	585 000 000	24%	25%
TOTAL DONOR CONTRIBUTIONS (a) SOUSCRIPTIONS DES DONATEURS	91,87%	3 756 810 946	6,8%						83 060		3 756 894 006			
SUPPLEMENTARY CONTRIBUTIONS (b) SOUSCRIPTIONS SUPPLEMENTAIRES	0,74%	30 111 681	-31,3%											
TECHNICAL GAP (c) DEFICIT TECHNIQUE	7,40%	302 468 300	122,9%											
REPLENISHMENT LEVEL (d) = (a)+(b)+(c) NIVEAU DE RECONSTITUTION	100,00%	4 089 390 927	10,6%											
ADVANCE COMMITMENT CAPACITY (e) CAPACITE D'ENGAGEMENT ANTICIPE		2 007 340 552	-2,7%											
TOTAL RESOURCES - GAP INCLUDED (d)+(e) TOTAL DES RESSOURCES - DEFICIT INCLUS		6 096 731 479	5,8%											
TOTAL RESOURCES - GAP EXCLUDED (d)+(e)-(c) TOTAL DES RESSOURCES - DEFICIT EXCLU		5 794 263 179	3,0%											

1 Agreement during ADF-9 that the extension of grants will be compensated by additional donors contributions / Accord durant FAD-9 que les dons octroyés seront compensés par des contributions additionnelles des donateurs

2 Credit generated by a 6-year accelerated encashment will be used to reduce the technical gap/ Crédit d'encaissement accéléré sur 6 ans sera utilisé pour réduire le déficit technique

3 Credit generated by a 3-year accelerated encashment included in the pledge / Crédit d'encaissement accéléré sur 3 ans inclus dans l'intention de souscription

4 Credit generated by a 3-year accelerated encashment included in the supplemental contribution / Crédit d'encaissement accéléré sur 3 ans inclus dans les contributions supplémentaires

5 Subject to the approval of the Government / Sous réserve de l'approbation du gouvernement

6 Subject to parliamentary approval and for Japan Diet approval/ Sous réserve de l'approbation du parlement, et pour le Japon, l'approbation du Diet

7 Subject to confirmation and to parliamentary approval / Sous réserve de confirmation et d'approbation du parlement

8 Subject to the approval of the Government and Council of Ministers / Sous réserve de l'approbation du gouvernement et du Conseil des ministres

9 South Africa is considering the allocation of accelerated encashment credit towards the technical gap / L'Afrique du Sud envisage d'utiliser le crédit généré par l'encaissement accéléré en faveur du déficit technique

10 Subject to Congressional approval / Sous réserve de l'approbation du Congrès

11 Subject to the entry into force of the 2011 budget law and subject to the parliamentary approval of the pledge. Currency of obligation to be decided upon by Germany by the time of the deposit of the Instrument of Subscription / Sous réserve de l'entrée en vigueur de la loi de finances 2011 et sous réserve de l'approbation de l'intention de souscription par le parlement. La devise de souscription sera également décidée par le gouvernement allemand au moment du dépôt de l'Instrument de Souscription

12 Subject to confirmation / Sous réserve de confirmation

13 Subject to parliament approval of the required credits / Sous réserve de l'approbation du parlement des crédits requis

14 Credit generated by a 4-year accelerated encashment included in the supplemental contribution / Crédit d'encaissement accéléré sur 4 ans inclus dans les contributions supplémentaires

15 Excluding supplementary contribution of SEK 80 million/ Excluant la contribution supplémentaire de 80 millions de SEK

**ADF-XII Standard Encashment Schedule**

<b>Encashment Year</b>	<b>Encashment Percentage</b>
2011	5.03%
2012	10.34%
2013	14.76%
2014	15.07%
2015	12.99%
2016	11.17%
2017	10.14%
2018	9.13%
2019	8.33%
2020	3.04%