

## Frequently asked Questions on ADF

### *1. What is ADF?*

The African Development Fund (ADF) is the concessional window of the African Development Bank Group, accessible to the least developed countries in Africa. It was established in 1972 and became operational in 1974. Its main objective is to stimulate economic growth and development and reduce poverty in Regional Member Countries (RMCs). The Fund emerged as the solution to two major constraints which became apparent after the Bank had commenced operations i) the limited amount of resources which the Bank could provide and ii) the nature as well as the terms of the loans, which were not fully appropriate for the poorest of its member countries, especially for projects with long-term maturities or non-financial returns. Nowadays, the ADF contributes to economic and social development in 40 low-income African countries by providing concessional loans and grants for projects and programs, as well as technical assistance for studies and capacity-building activities.

The Board of Governors is the Fund's highest policy-making organ. It consists of respective ministers (i.e. Ministers of Economic Development or Ministers of Finance) from all the member countries. The Board of Governors meets at least once a year.

The ADF Board of Directors oversees the Fund's general operations. It includes six Executive Directors from non-RMCs (nominated by their constituencies) and six Executive Directors representing the ADB.

The Fund's resources consist of contributions from internal Bank resources and periodic replenishments by donor countries, usually on a three-year basis. Initial contributions to ADF were pledged in 1972. The first replenishment - designated ADF I - took place in 1974 and covered the period 1976-1978. In total, the ADF has been replenished eleven times; therefore, the current ADF period is ADF-11. The eleventh replenishment successfully concluded in December 2007 for the Fund's activities in 2008-2010. For the ADF-11 period, ADF Deputies agreed on a record level of UA 5.76 billion, an amount equivalent to US\$ 8.9 billion. This represents a 52% increase over the last replenishment (ADF-10).

### *2. Why does the ADF need to be replenished?*

Unlike the loans from a commercial bank, ADF loans are interest-free and repayable over very long periods of time (50 years), with a 10-year grace period. The loans only carry a service charge of 0.75 percent per annum on outstanding balances, and a commitment fee of 0.50 percent per annum on undisbursed commitments. In addition, countries with a moderate or high risk of debt distress, who therefore have reduced repayment capacity, receive grants. As a result, the level of reflows (loan repayments) is not sufficient to provide a substantial amount of new financing to meet the continent's development

needs. Furthermore, the ADF's reflows have been strongly reduced through major debt forgiveness initiatives such as the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). The ADF's resources must therefore be regularly replenished through contributions.

### *3. How does the ADF replenishment process work?*

Since its establishment in 1972, donor countries replenish the Fund every three years with additional resources. The Governors of the donor countries (currently 26) each designate a representative; these representatives are called the ADF Deputies. The ADF Deputies, Bank Management and four observing Regional Member Countries participate in four to five large meetings which take place in various locations over the course of approximately 9 months. Together these constitute the replenishment process. During the meetings, the participants review how the ADF's resources have been spent, and discuss issues such as the development results which have been achieved, the long-term financial outlook for the Fund, the policy framework and the operational priorities for the coming three years. At the final meeting the donors make their pledges of new resources.

For every replenishment, a Mid-Term review takes place approximately 18-20 months after the replenishment entered into force. The Mid-Term review serves as a monitoring and accountability mechanism that allows the Fund to report on its progress and the ADF Deputies to monitor and if necessary, adjust core policies and procedures.

### *4. What is the difference between ADF replenishment and general capital increase?*

As the Bank Group invests in new projects and initiatives on the continent, the resources entrusted into both instruments - the ADF and the ADB - are periodically augmented.

The ADF spends the money pledged to it by donor countries and therefore needs to be replenished every three years. The most recent and 11th replenishment of the ADF, for the Fund's 2008-2010 operations, was concluded in December 2007 to the tune of US\$ 8.9 billion. The Fund's core strategic priorities under ADF-11 include infrastructure, governance, fragile states and regional integration.

The ADB works in a different way: it uses the capital provided by its shareholders as a basis on which to borrow from the financial markets, and then on-lends these resources to the 13 ADB-eligible RMCs. Its capital base is therefore increased only as and when necessary in order to maintain its capital adequacy at the prudential level required. As its lending activities increase, so too must the capital reserves paid in by shareholders. This allows the Bank to continue to tap international capital markets and raise development

and project finance which may otherwise not reach the continent. Since the inception of the ADB in 1964, the ADB has had five general capital increases. The most recent, Fifth General Capital Increase concluded in 1998 and recorded a 35% capital increase. Bank shareholders have committed to initiating - distinctly from the ADF-11 Mid-Term Review and ADF-12 replenishment - a process of consultations and preparations to launch a Sixth General Capital Increase. The first meeting of the Governors Committee which will manage the process for a GCI took place on 11 September and it is hoped that the negotiations can conclude by mid 2010.

The GCI process engages all the Bank's shareholders whereas the ADF negotiations are primarily focused on those shareholding countries which are donors of the Fund.

#### *5. How are ADF funds distributed to each country?*

Performance-based allocation (PBA) is the core mechanism for allocating the Fund's scarce concessional resources to eligible RMCs. This ensures that proportionally more resources go to those recipients best positioned to utilize them more effectively, and rewards countries for strong institutions and policies and effective implementation of ADF projects and programs. Nonetheless, the level of development - and thus need - is factored in the distribution formula, so that countries who are poorer or have larger populations also receive more.

In the resource allocation system, performance is measured by the Country Performance Assessment (CPA), while need is measured by per capita income (an index of a country's poverty level) and population size. The CPA is a weighted average of the Country Policy and Institutional Assessment (CPIA) at 26 percent, the Country Portfolio Performance Rating (CPPR) at 16 percent, and the Governance Rating at 58 percent. In addition, the system provides all countries with a basic minimum allocation of UA5 million. Also, eligible post-conflict countries receive supplementary financing from the Fragile States Facility in support of their recovery and in recognition of their status of exceptional need.

The level of countries' risk of debt distress is also taken into account: once the indicative size of the allocation has been determined, the form of the funds (loans or grants) is decided. Countries with a low risk of debt distress receive their allocation in the form of loans, countries with a high risk receive grants, and countries with a moderate risk receive a mix of loans and grants.

Countries are notified of their indicative allocation for the three-year period of each ADF, and the allocation is re-calculated each year.

#### *6. What is the meeting in Helsinki about?*

The ADF will undertake a Mid-Term Review of ADF-11 on 20-21 October 2009 in Helsinki, Finland. At this meeting, the progress in implementing the operational and policy program of ADF-11 will be reviewed by representatives of the donor countries (the ADF Deputies) as well as observers from regional member countries. A special focus will be on presenting the results achieved, in terms of development outcomes, from the funds that donors have made available to the ADF-11. It is Bank Management's intention that the occasion of the ADF-11 Mid-Term Review meeting will also serve as the kick-off for the ADF-12 replenishment process. This is for the ADF Deputies to decide; therefore it is important to provide the Deputies with satisfactory information on the implementation of ADF-11 so far, the institutional capacity of the Bank Group to efficiently handle resources, and its effectiveness in achieving results.

7. *What are the next steps?*

After the ADF-11 Mid-term review, the ADF-12 replenishment process will start. This process should conclude in mid-2010 so that ADF-12 can effectively start on 1 January 2011.

8. *What is the role of the Bank's operational departments and Field Offices in the ADF-11 MTR and ADF-12 process?*

Operational departments and field offices are strongly involved in the ADF-11 MTR and ADF-12 process. First and most important, they are implementing ADF-funded projects for the Fund in cooperation with local counterparts. Therefore, they are crucial in providing information on the ongoing projects and in-country conditions. In addition, they monitor and measure achieved measuring results. For the ADF-12 process, they cooperate in identifying the project pipeline for the next three years, which will influence the definition of the ADF's core priorities as well as the total ADF request for funding.

9. *What are the policy priorities of ADF-11?*

The ADF has a strategic focus that targets a selected number of areas where it can add most value. ADF funds therefore mainly go to only a few sectors. Greater selectivity allows ADF to be active in those important sectors where ADF can make a real difference. As agreed during the ADF-11 consultations, ADF-11 targets interventions oriented around its core priorities Infrastructure, Governance, regional Operations and Fragile States.

10. *How do donors assess the performance of the ADF?*

The ADF action plan is consolidated around a results measurement framework. The results measurement framework has two tiers; it measures development effectiveness at the country and regional level and institutional effectiveness at the agency level. The framework includes specific targets for each objective. Progress on these targets is presented to the donors in a progress report which is presented and discussed at the MTR.. In addition, external evaluations provide an outside view on the performance of selected important areas of institutional effectiveness.