

MULTINATIONAL - PHASE THREE OF THE AFRICA TECHNICAL ASSISTANCE CENTRES INITIATIVE (AFRITACs III) – PROPOSAL FOR AN ALLOCATION OF USD 7.5 MILLION FROM THE SURPLUS ACCOUNT TO AFRITAC *

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THIRD FINANCING CYCLE OF THE AFRICA TECHNICAL ASSISTANCE CENTRES INITIATIVE (AFRITACs III): PROPOSAL FOR AN ALLOCATION OF USD 7.5 MILLION FROM THE BANK'S SURPLUS ACCOUNT

I. BACKGROUND

1.1 The AFRITACs Initiative is part of an international effort led by the International Monetary Fund (IMF) to build institutional and human capacity in African countries. It originated from a response to African leaders' call to the international community to increase technical assistance to Africa and focus it more sharply on capacity building to improve economic and financial management. Since the initiative was launched in 2002, three AFRITACs have been established as follows: (i) East AFRITAC based in Dar es Salaam, Tanzania to cover the needs of seven east African countries¹; (ii) West AFRITAC, in Bamako, Mali to cater for ten West African francophone countries²; and (iii) Central AFRITAC, in Libreville, Gabon, serving eight countries³.

1.2 As a collaborative venture between the African countries, the IMF, bilateral and multilateral donors, including the Bank, the overarching objective of the AFRITACs Initiative is to strengthen the institutional capacity of beneficiary countries in order to design and implement their Millennium Development Goals and poverty reducing strategies, supported by sound macroeconomic and financial policies. In this regard, the programme has 3 major components namely: (i) macroeconomic management support (public finance management, customs and tax management, debt management, and the macroeconomic policy); (ii) financial system support (consolidation of bank regulations and microfinance sector) as well as monetary policy; and (iii) information system support.

1.3 Building on the success of the first two phases, the third phase of AFRITAC, which will cover the five-year period from 2010 to 2014, will be scaled-up and expanded to cover all Sub-Saharan African countries. Two additional AFRITACs - one in Mauritius to cover Southern Africa⁴ and the other in Ghana, for non-francophone West African countries⁵ will be established. The overall cost of the five-year programme is estimated at USD 250 million. The new financing for the existing East and West AFRITACs started in 2009 and AFRITAC Central will start in May 2010. The two new AFRITACs are expected to start operations by mid-2010.

¹ Eritrea, Ethiopia, Kenya, Malawi, Uganda, Rwanda and Tanzania

² Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo

³ Burundi, Cameroon, Central African Republic, Republic of Congo, Democratic Republic of Congo, Gabon, Equatorial Guinea, and Chad

⁴ Angola, Botswana, Comoros, Lesotho, Madagascar, Mozambique, Mauritius, Namibia, Seychelles, South Africa, Swaziland, Zambia and Zimbabwe

⁵ Cape Verde, Gambia, Ghana, Liberia, Nigeria, and Sierra Leone

II. PURPOSE OF THE MEMORANDUM

2.1 The purpose of this memorandum is to request the Board of Governors' approval to authorise the Bank to make a contribution to the third phase of the AFRITACs initiative from the Bank's Surplus Account in the amount of USD 7.5 million, equivalent to UA 4.8 million⁶.

2.2 The Bank Group has supported the AFRITAC initiative since its inception in 2003. The first phase of the AFRITACs initiative (2003-2005) amounted to USD 40 million (UA 29.5 million), to which the Bank contributed USD 3.25 million (UA 2.1 million), or about 7% from ADF resources. The second phase (2007-2009) amounted to USD 48 million (UA 30.7 million), to which the Bank contributed USD 4.5 million (UA 3.02 million), also from ADF resources. The Bank contribution for Phase II accounted for about 10%, whereas the IMF contributed 16% and bilateral donors and host countries contributed 70% and 3%, respectively. The first two phases of the AFRITACs covered ADF-only countries. In the third and current phase, the Bank can no longer utilize ADF resources for two main reasons, namely: (i) ADF-11 resources for multinational operations (MNOs) for regional public goods (RPGs) are overcommitted in 2010 and (ii) the coverage of the third phase of AFRITACs will be extended to ADB countries which cannot access ADF resources.

2.3 Support to the AFRITACs has been identified by Senior Management as a high priority initiative that can benefit from an allocation from the Surplus Account given the impact such initiative is having on strengthening the institutional capacity of beneficiary countries to manage their public resources better. In view of the strategic importance of supporting the work of the AFRITACs and maintaining the collaboration with the IMF, Management recommends to the Board to allocate USD 7.5 million (UA 4.8 million) to the next phase of AFRITACs from the Surplus Account.

III. RATIONALE AND JUSTIFICATION

3.1 The request for continued support to AFRITACs is based on the provision under the Guidelines for Distributions from the Surplus Account of July 2007 (ADB/BD/WP/2007/84) for funding important high-priority initiatives for which alternative source of finance are not available or feasible.

3.2 The rationale for continued Bank support to and engagement with AFRITACs is based on four main considerations: (i) the relevance to Africa's development challenges in the context of the global economic crisis, as demonstrated by the results achieved by the two previous phases of the initiative; (ii) the added value of the Bank's continued engagement as a pivotal regional partner; (iii) the ability of the Bank to leverage additional resources for Regional Member Countries (RMCs) by working with AFRITAC; and (iv) the relevance to and complementarities with the Bank's increased work on economic governance and public financial management.

⁶ At the exchange rate of 8 February 2010 of 1 UA = USD 1.55.

3.3 **Global economic crisis:** The global economic and financial crisis, as well as continued vulnerabilities of African countries, makes the policy advice and technical assistance provided through AFRITACs even more relevant today than in the past. The areas in which the AFRITACs are providing assistance are critical to rationalising public finances and reducing poverty, including financial sector strengthening, debt management, revenue management and tax reform. This assistance is relevant to all Bank RMCs, including middle-income countries, which are severely affected by the global economic downturn and which have embarked upon dramatic reforms (Mauritius, Seychelles, and Cape Verde).

3.4 **Added value:** The Bank's added value in the AFRITAC partnership is based on its ability to influence the initiative and enhance Africa's voice. Through its engagement in the first and second phases of AFRITAC, the Bank has over time built a strong partnership with the IMF and become a pivotal regional partner in the implementation of the initiative, notably through its active engagement in the Steering Committees of the three existing AFRITACs; principally through the Bank's country offices in Mali (MLFO), Gabon (GAFO) and Tanzania (TZFO) and engagement from headquarters (OSGE) as well. During the third-phase, the Bank is better placed to further engage and influence the AFRITAC and bear the full benefits of its contribution, including through closer cooperation on targeted technical assistance and upstream diagnostic work. Important lessons for the Bank from the first two phases of the initiative include the need for enhanced awareness of and engagement with the AFRITAC technical assistance at the country level, including through the field offices and country departments, and more complementarity and effective coordination with Bank operations.

3.5 **Leverage additional resources:** Through a modest contribution to the AFRITAC, the Bank is able to leverage additional targeted policy advice and technical assistance for RMCs in critical areas of reform. By partnering with AFRITAC the Bank has created a platform for enhanced support to Africa's efforts to improve economic management and financial governance in the context of the recovery from the global economic crisis through the provision of targeted technical assistance and the building of institutional capacities. The Bank's involvement with AFRITACs is in line with the recently approved Bank Group Capacity Development Strategy approved on 13 January 2010 (ADB/BD/WP/2009/222/Rev.1, 24 December 2009).

3.6 **Relevance to the Bank's work in economic and financial governance:** The Bank's increased engagement in the area of economic governance and public financial management enhances the relevance of AFRITACs to its work. The Bank's Governance Strategic Directions and Action Plan (GAP 2008-2012, ADB/BD/WP/2008/70, 24 April 2008) focus the Bank's governance agenda on the improvement of economic governance and the strengthening of public financial management. There are potent complementarities and synergies between the AFRITACs' technical assistance and the Bank's support through policy-based lending and institutional strengthening projects, including in new areas of Bank engagement such as debt management and tax reform. Furthermore, AFRITACs' technical assistance will help inform the Bank's policy dialogue with RMCs and contribute to improve the quality-at-entry of Bank operations in the areas of economic governance, public financial management and financial sector reform, including budget support. Lastly, developing an effective partnership with AFRITACs allows the Bank to have an additional instrument to assist RMCs.

3.7 The AFRITACs' model is an opportunity for the Bank and the IMF to further strengthen co-operation and synergies. In the third phase of the AFRITAC initiatives, the IMF has agreed, based on dialogue with partners, including the Bank, and an independent evaluation undertaken in 2008-09, to (i) revise the governance structure of AFRITAC by establishing a central steering committee for overall policy and strategy coordination, (ii) facilitate the exchange and dissemination of technical assistance information and reports amongst AFRITAC partners, including the Bank, (iii) further the IMF engagement in-country donor coordination, in particular in joint government-donors policy dialogue and relevant multi-donor technical groups; and (iv) ensure sustainability of the technical assistance provided through more effective linkages with donor-supported capacity-building efforts such as the Bank's institutional support programs.

IV. RESULTS TO DATE

4.1 The existing AFRITACs are widely considered as models for effective technical assistance and capacity building in economic governance and public financial management in Africa. In this regard, the results achieved so far have included the following: (i) improved capacity to design and implement sound macroeconomic policies; (ii) improved macroeconomic stability, public financial management and financial systems; (iii) more effective and transparent use of domestic resources and budget support; (iv) higher revenues and more efficient and fairer tax systems; (v) growth-oriented financial systems including establishment of risk based banking supervisory framework and modernisation of retail payment and settlement systems and the harmonisation of cross-border systems; (vi) deeper regional economic integration; and (vii) better economic statistical data.

4.2 An independent evaluation of the three AFRITACs undertaken in 2008-09 and released in March 2009 confirmed that the AFRITACs "delivered high quality technical assistance in an effective and efficient manner." The 2009 Independent Evaluation Report also "found that the technical assistance delivered by the AFRITACs was responsive to countries' needs and was 'owned' by the countries." The overall rating of the performance of the AFRITACs was good. In terms of the four dimensions of evaluation (namely relevance, effectiveness, efficiency and sustainability) the highest scores were for relevance and the lowest scores were for sustainability. The evaluation noted that, inter alia, the AFRITACs (i) provided rapid and flexible services with all technical assistance delivery modes; (ii) the quality of the expertise and advice provided was good; (iii) technical assistance contributed to improved transparency, accountability and control, thus contributing to reducing opportunities for corruption. The actual outputs realised include: (i) development of a structured risk management programme framework designed to optimise the use of public resources in Kenya, Rwanda and Tanzania; (ii) assisting in the design and implementation of the organic budget law in Rwanda; (iii) strengthening internal audit units and improving the status of external audits; and (iv) the development of the legal framework for debt management in Gabon and Mali.

4.3. In addition, the Bank's Project Completion Report (PCR) for the second phase of AFRITACs carried out in 2009 (ADF/BD/IF/2009/340, 23 December 2009) also rated the overall performance of the AFRITACs as satisfactory. For example, the PCR concluded that the AFRITAC programme improved member countries' resource mobilisation through the development of corporate plans for improving tax policy and administration. The programme also led to improvement in the legislative framework and procedural rules of the budget process and helped most countries, particularly in the East, in establishing cash management units and

setting procedures and manuals for improved financial management. Moreover, the programme helped improve banking supervision, regulations and procedures, particularly related to the development of a risk-based approach. It also assisted countries in external debt management, through the establishment of debt databases and the undertaking of debt sustainability analyses. AFRITACs also facilitated regional harmonisation and integration by anchoring specific technical assistance activities in regional economic initiatives, providing training jointly with regional institutions, and helping establish a regional professional network.

4.4. While confirming the relevance of the technical assistance provided, the evaluation also underscored the need to ensure sustainability through greater coordination with development partners, such as the Bank, in the implementation of institutional reforms and the building of institutional capacity. It also encouraged AFRITACs to put greater emphasis on building African capacities and expertise through support to “regional centres of excellence” including local think-tanks and university centres. In this regard, the Centres will, in the third phase, strengthen their involvement in in-country donor coordination and more actively disseminate information on AFRITACs products, as recommended by the independent evaluation. Similarly, the visibility of the partners supporting each Centre will be increased in the third phase.

4.5 The report further cited four instances, in which the Bank’s intervention in the Steering Committee has led to improvements in the programme as follows: (i) more intensive consultation between the IMF and other partners in the Steering Committee regarding the choice of resident advisers; (ii) the need to promote regional expertise; (iii) the revision of the format of monitoring and evaluation reports; and (iv) better dissemination of information between project partners.

V. RESOURCE MOBILISATION

5.1. The Bank has been instrumental in mobilising additional resources for RMCs through the AFRITACs Initiative. On 11 December 2009, the Bank at the request of the IMF co-hosted the international pledging conference for AFRITAC III; signalling its support for the initiative. The overall cost of the five-year programme for four Centres (East, South, West and West-II) is estimated at USD205.80 million (UA 320 million). As summarised in Table 1 below, about 64% of the expected funding has been confirmed at the Tunis pledging conference in December 2009. A few further pledges, including from the European Commission, are expected shortly. The Bank’s proposed contribution will represent about 3% of the total. The IMF is working to close the remaining financing gap with donors that were not yet ready to pledge or could not attend the pledging session.

Table 1 : AFRITACs STATUS OF PLEDGED CONTRIBUTIONS (11 December 2009)

(in millions of USD)

Contributors	Pledges	East	West	South	West 2	Not yet formally allocated 1/
Total Financing	131.1	28.9	24.0	17.5	14.5	46.3
IMF and host country contributions	31.4	5.8	7.5	11.0	7.1	-
Recipient Contribution	11.0	2.6	2.8	3.3	2.4	-
Donors	88.7	20.5	13.7	3.2	5.0	46.3
United Kingdom	40.0	18.0				22.0
Switzerland	10.0	1.0	1.0	3.0	5.0	
France	7.8	-	-	-	-	7.8
African Development Bank	7.5	-	-	-	-	7.5
The Netherlands	5.9	1.5	4.4	-	-	-
European Investment Bank	4.5	-	1.5	-	-	3.0
Germany	4.5	-	1.5	-	-	3.0
Finland	3.0	-	-	-	-	3.0
Kuwait	2.5	-	2.5	-	-	-
Luxembourg	1.9	-	1.9	-	-	-
Italy	0.9	-	0.9	-	-	-
Brazil	0.2	-	-	0.2	-	-
5-year Budgets (east, West, South, West 2)		50.6	51.4	59.6	44.2	
Remaining Financing Requirement by Centre		16.2	20.8	25.2	18.2	

1/ includes some funds for Central AFRITAC

Source: International Monetary Fund, 2009.

VI. IMPLEMENTATION MODALITIES

6.1 The institutional framework of the three existing Centres was stable and effective during implementation of the Phases I and II. It will, therefore, be continued under Phase III. Contributions from donors and recipient countries will be made into a multi-donor sub-account to be established under the IMF's Framework Administered Account for Selected Fund Activities (SFA) for each Centre. The IMF is the executing agency of the AFRITAC programme. It is responsible for technical and administrative matters, including the posting of coordinators and the quality of technical assistance provided. The IMF provides support and control services and manages the contributions of the other donors as well as financial agreements. Hence, the financial management of AFRITAC is done according to procedures laid down by the IMF for its Resident Representatives with regard to management of the Centres, and the recruitment and payment of experts. Each Centre is administered by a Steering Committee which determines the strategic guidelines, establishes work programmes and monitors implementation. The operations and transactions conducted through the sub-account will be audited as part of the IMF's Framework Administered Account. Each Centre is also subject to annual audits by the IMF's internal audit office.

6.2 To encourage ownership of activities and empowerment of clients through peer review and systematic evaluation, the Centres' Steering Committees are comprised of representatives of the host country, other African countries covered by the Centres, the IMF, the ADB, BCEAO (for West AFRITAC alone), elected representatives of donors and Centre coordinators. The needs of countries covered by the Centres, submitted on a half-yearly basis to the Steering Committees, in which the Bank is represented, are regularly assessed through discussions between Resident Advisers, IMF technical departments, Fund headquarter missions and interlocutors in member-countries. The technical assistance and training provided by the Centres are subject to technical and quality controls by IMF operational departments which ensure that the services provided comply with IMF professional standards and international good practices. As in the previous phases, it is envisaged that after no less than three years of operation, an independent external evaluation of the work of the Centres be carried out by a team of independent experts.

6.3 In accordance with Bank regulations the goods and services financed under subsidiary account activities shall be procured in accordance with the rules of procedure of the IMF which identifies and employs the Centre's experts and serves as the executing agency. Under the current programme, all donors have agreed to use IMF rules and procedures which comply with international standards characterised by open competition. A Memorandum of Understanding (MoU) defining the terms, conditions and use of contributions as well as accounting, reporting and audit needs shall be signed with the Bank as soon as the Bank's contribution proposal is approved by the Boards of Governors.

VII. CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions

7.1.1 The technical assistance delivered through the AFRITACs is demand-driven, focused, flexible, responsive and cost-effective. It responds to the needs of countries and is closely connected to their poverty-reducing strategies. In this regard, it is vital to RMCs efforts to promote institutional capacity, macroeconomic stability, growth and poverty reduction. The Centres provide an effective platform for the harmonisation of regulatory frameworks, the adoption of best practices, and overall economic integration. At the same time, the technical assistance services offered by the Centres both complement and supplement the assistance provided by other donors, including the Bank.

7.1.2 African countries over the medium to long-term will continue to be confronted with the challenge of strengthening economic governance and public financial management to dent poverty, which in turn would require continued institutional capacity and targeted technical assistance. The global economic crisis makes the assistance provided through AFRITACs Initiative even more relevant and increasingly complementary to the Bank's own support.

7.2 Recommendations

7.2.1 In the light of the foregoing, Senior Management recommends that the Board of Directors endorses and transmits to the Board of Governors for approval the distribution of seven million five hundred thousand US Dollars (USD7.5 million) from the Bank's Surplus Account for Phase III of AFRITAC.

7.2.2 The objective of such participation is to support continuation of the activities of the first three African Regional Technical Assistance Centres (East, Central and West AFRITACs) and the creation of two additional African Regional Technical Assistance Centres in Anglophone West Africa and Southern Africa. The Bank's contribution will be distributed equally to each of the five Centres (i.e. USD 1.5 million). After approval of the Board of Governors and signature of the Memorandum of Understanding (MoU) with the IMF, it shall be disbursed in two tranches as follows: (i) USD 4.5 million equivalent to UA 4.8 million⁷ to the three existing Centres (Central, East, and West); and (ii) USD 3.0 million to the two new Centres (South and West-II).

⁷ At the exchange rate of 8 February 2010 of 1 UA = USD 1.55.

AFRICAN DEVELOPMENT BANK

BOARD OF GOVERNORS

Resolution B/BG/2010/[]

Adopted by Postal Ballot on [] 2010

Allocation of Funds from the Surplus Account of the Bank to assist in the financing of the Third Phase of the African Technical Assistance Centres (AFRITAC III)

THE BOARD OF GOVERNORS,

HAVING REGARD to: (i) the Agreement Establishing the African Development Bank (the "Bank"), in particular Articles 29 (Board of Governors: Powers) and 42 (Allocation of Net Income); and (ii) the Financial Regulations of the Bank, in particular Regulations 3.1(5) (Use of Resources - Allocation of Net Income) and 4.6 (Content of Proposals for Allocations of Part of the Net Income);

RECALLING:

- (i) Resolution B/BG/2009/07 of this Board, adopted on 13 May 2009 concerning allocations and distributions of part of the Net Income of the Bank for the Financial Year ended 31 December 2008 using allocable income as the basis of allocation and distribution, as well as allocating to the Surplus Account Twenty Three Million Nine Hundred Eighty Thousand Units of Account (UA 23,980,000) from the balance of the 2008 allocable income; and
- (ii) Resolution B/BG/2007/02 of this Board, adopted on 16 May 2007, by which this Board: (a) authorized the distribution of part of the net income of the Bank for the year ended 31 December 2006; and (b) authorized the Board of Directors to adopt the necessary modalities for distributions by this Board from the Surplus Account;

HAVING CONSIDERED the memorandum of the Board of Directors contained in Document ADB/BD/WP/2010/29/Approval entitled "Multinational: Phase Three of the Africa Technical Assistance Centres Initiative (AFRITAC III) – Proposal for an allocation of USD 7.5 Million from the Surplus Account to AFRITAC" (the "Report"), and the recommendations therein;

HEREBY:

- (i) Decides to allocate from the Bank's Surplus Account an amount not exceeding Seven Million Five Hundred Thousand United States Dollars (USD 7,500,000) as contribution from the Bank to the Third Phase of the African Technical Assistance Centres (AFRITAC III) ; and
- (ii) Authorizes the Board of Directors and Management to take all such measures as are necessary or expedient for the proper implementation of this Resolution.