

Africa's Voice and Financier

The new role of the
African Development Fund
in the changing aid architecture



African Development Fund Series

Africa's Voice and Financier

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African Development Fund
in the changing aid architecture**



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Contents

Aid, Africa and the African Development Fund	1
The State of Development Financing in Africa: Increasing Flows, Proliferating Donors and Fragmented Aid	3
Increased Flows and Shifting Distribution of Aid to Africa	3
Proliferation of Donors: Fragmentation of Aid and Implications to Aid Effectiveness	5
The African Development Fund: Africa's Voice and Financier	9
Africa's Lead Donor in Infrastructure, Governance and Regional Integration	9
An Innovative Supporter of Africa's Fragile States	14
The Facilitator of Private Sector Activities	15
The Continent's Resource Mobilization Platform	15
A Convener of Multi-level Partnerships	18
Africa's Voice and Knowledge Platform on Development Issues	18
A Key Partner in the Midst of Crisis	20
Conclusion	21
Notes	23
Boxes	
1 Road Infrastructure in Senegal: Leveraging the Potential of Public-Private Partnerships	12
2 Public Financial Management Reform in Liberia: Strengthening Financial Governance in a Fragile State	12
3 Regional Operations in the Transport Sector: Reducing Poverty through Greater Integration	13

4	Initiatives in Water Supply and Sanitation	17
5	Selected Partnerships and Initiatives	19

Graphs

1	Total ODA to Africa from DAC Donors, 1980–2007	4
2	Total ODA to ADF countries 1996–2007	5
3	Global ODA from Non-DAC Donors Reporting to the OECD-DAC Database, 1997–2007	6
4	Total ODA and ADF Funding by Sector, 1996–2007	10
5	ADF Commitments to Governance, Infrastructure and Regional Operations, 1995–2007	11
6	ADF's Share of Total ODA for Regional Operations, 1995–2007	13
7	Trends in Cofinanced Projects, 2002–2008	14
8	Private Sector Approvals in ADF-Only Countries, 1998–2008	16
9	ADB Trust Fund Resource Mobilization Trends, 2002–2008	17

Table

1	Africa's Top Ten ODA Recipients, 2002–2007	4
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Aid, Africa and the African Development Fund

Africa's aid architecture has changed significantly in recent years. Aid volumes have increased greatly at the same time that donors have proliferated and interventions have fragmented. This situation has created tremendous challenges for recipients and donors alike. Even before the global financial and economic crisis, Africa was struggling to meet the Millennium Development Goals in the absence of sufficient concessional financing. Recent initiatives to grant debt relief to the most heavily indebted poor countries have alleviated some of the pressure, and support to fragile states in transition out of conflict has helped to stabilize the continent. But research shows that aid will have to become much more effective and volumes of aid will have to grow even more if Africa is to develop sustainably and equitably in the short and medium term.

Established in 1964, the African Development Bank (ADB or the Bank) is a regional multilateral development bank whose mission is to help reduce poverty, improve living conditions for Africans and mobilize resources for Africa's economic and social development. Its shareholders comprise 53 African regional member countries (RMCs) and 24 non-African member countries. The Bank's primary objective is to promote sustainable economic growth to reduce poverty in Africa. In 1973, the ADB and donors created the African Development Fund (ADF or the Fund), the Bank Group's concessional window. The ADF's main objective is to reduce poverty by providing low-income RMCs (ADF countries¹) with concessional loans and grants for projects and programs and with technical assistance for studies and capacity-building activities.

The ADF has repositioned itself in recent years to respond to the challenges associated with this changing aid architecture. It has increased its strategic selectivity around infrastructure, governance, regional integration and fragile states. It has reformed its procedures, built institutional and country capacity and improved the effectiveness of its aid to the continent by putting greater emphasis on quality at entry and results. The results of these reforms

are now becoming evident. The ADF is more efficient, its operations are more effective, and the institution is rapidly becoming the continent's premier development finance institution and lead donor in its areas of intervention.

After reviewing the state of development financing in Africa, with a particular focus on aid flows, proliferation and fragmentation of aid and their implication for aid effectiveness, this paper describes the new role of the ADF as the voice and financier of African low-income countries.

The State of Development Financing in Africa:

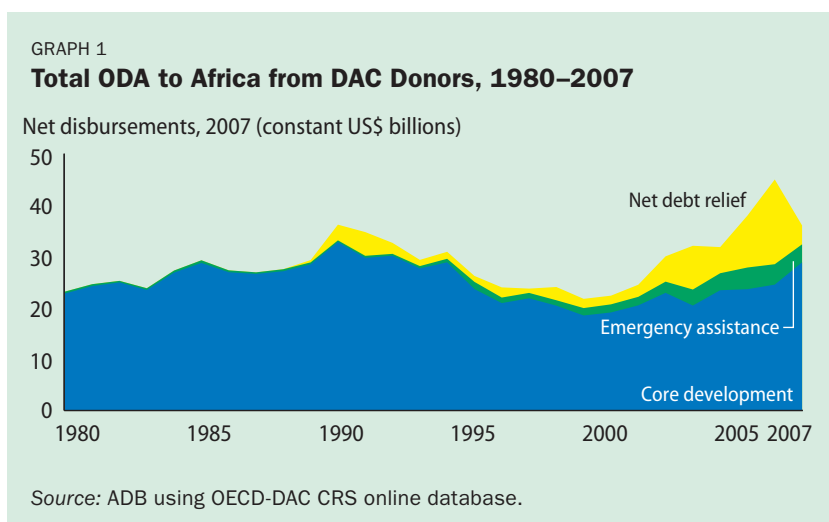
Increasing Flows, Proliferating Donors and Fragmented Aid

Increased Flows and Shifting Distribution of Aid to Africa

The flow of aid to developing countries has changed dramatically over recent decades, not least in Africa. According to the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), which is composed of 23 donor countries and several multi-lateral organizations committed to improving aid effectiveness, net official development assistance (ODA) from DAC members to Africa rose from US\$ 22 billion in 2000 to US\$ 45 billion in 2006 before dropping to US\$ 36 billion in 2007 (graph 1). More than half of this increase can be attributed to debt relief, which soared from US\$ 1.7 billion in 2000 to US\$ 16.5 billion in 2006 under the international Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Leaving debt relief and emergency assistance aside, ODA for core development programs rose from US\$ 19 billion to US\$ 30 billion from 2000 to 2007.

Despite these dramatic increases, ODA volumes remain far below the estimated US\$ 72 billion per year (US\$ 62 billion from DAC members) needed by low-income African countries to meet the Millennium Development Goals.² Furthermore, DAC projections indicate that, in the aftermath of the financial crisis, some donors have decreased their aid and others are unlikely to meet their commitments. The consequences of this shortfall are all the more serious in light of the significant impacts on growth caused by the crisis in many African countries.

Added to recent shifts in the volume of financing are shifts in the distribution of aid. First, the share of ODA to low-income countries increased from about 78 percent in the second half of the 1990s to 90 percent in 2005–2007, and middle-income countries' share fell from over 22 percent to just 10 percent over the same period, reflecting donors' increasing focus on the poorest countries and the Millennium Development Goals in these countries.



In terms of regions, the bulk of ODA to low-income countries between 1990 and 2007 went to East and West Africa (more than 64 percent in total). North Africa received the smallest share (less than 2 percent), reflecting that Mauritania is the only low-income country in this sub-region. The distribution of ODA between East and West Africa has also fluctuated substantially over time, reflecting conflicts, variations in donor priorities and country performance issues. Collectively, ten countries received 62 percent of all ODA resources during the 2002–2007 period (table 1).

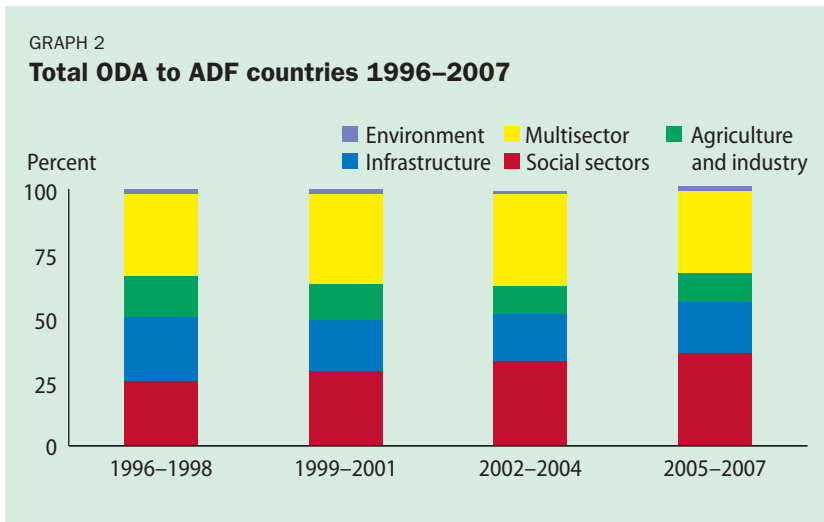
The distribution of aid among sectors has also changed over the past decade. From 1996–1998 to 2005–2007, ODA mainly benefited the social sector and a variety of areas—mainly governance (public sector management and institutional support), private sector development, industrial imports

TABLE 1

Africa's Top Ten ODA Recipients, 2002–2007
(in US\$ millions, 2007 constant prices)

Highest ODA recipients	Average ODA amount received 2002–2007
Nigeria	3,861
Congo, Dem. Rep.	2,659
Tanzania	2,099
Ethiopia	2,086
Mozambique	1,854
Sudan	1,457
Uganda	1,413
Ghana	1,245
Cameroon	1,216
Zambia	1,209

Source: ADB using OECD-DAC online database.



and export promotion—collectively referred to as “multisector.” Together the share of funding of these two sectors grew from 57 to 68 percent (graph 2). The share of agriculture, industry and infrastructure, meanwhile, fell from 41 to 31 percent, despite enormous unmet financing needs in these areas. For infrastructure alone, for example, Africa’s shortfalls are estimated at US\$ 35 billion per year.³

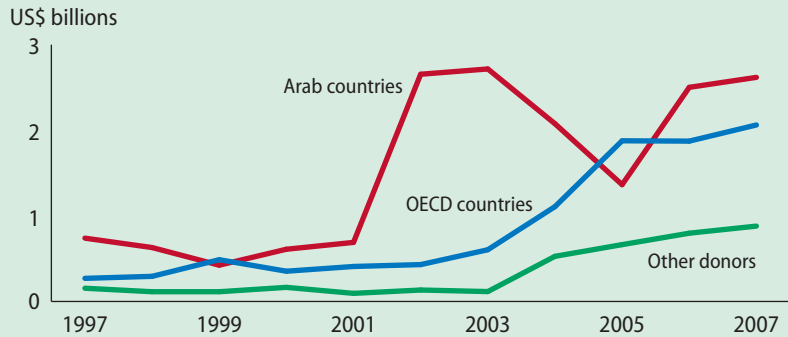
This phenomenon testifies to dilemmas associated with the growing verticalization of aid. Verticalization, or the earmarking of large portions of aid for specific sectors or issues within sectors, can be useful in mobilizing resources for issues that may otherwise be neglected and for achieving economies of scale in terms of procurement and human capacity. The difficulty, however, is that in the absence of an internationally agreed framework that allocates aid resources on the basis of the evolving needs of each recipient, success in mobilizing resources for single-issue causes at the global level can come at the expense of other, crucial sectors within a given country.

Proliferation of Donors: Fragmentation of Aid and Implications to Aid Effectiveness

One of the most striking changes in the flow of aid in recent years is the rise in ODA and non-concessional financing from non-DAC bilateral donors to developing countries globally. Among these, Middle East countries (Kuwait, Saudi Arabia and the United Arab Emirates) provided ODA of US\$ 1.5 to 2.5 billion per year between 2002 and 2007, aid from OECD non-DAC donors (the Czech Republic, Hungary, Iceland, Poland, the Slovak Republic, South Korea and Turkey) quadrupled from less than US\$ 500 million in 2001 to over US\$ 2 billion in 2007 (graph 3).

China has been a particularly important player in development financing for several African countries. China’s annual ODA to Africa has been

GRAPH 3

Global ODA from Non-DAC Donors Reporting to the OECD-DAC Database, 1997–2007

Source: ADB using OECD-DAC online database.

estimated at between US\$ 1.4 billion and US\$ 2.7 billion per year, while non-concessional flows are estimated at US\$ 8.5 billion per year. China's financing to Africa is mainly channeled through China's Export-Import Bank and the China-Africa Development Fund.

An important challenge raised by increased non-concessional financing to African low-income countries from China and elsewhere is its impact on the recipients' debt sustainability. If unchecked, accumulated debt incurred on non-concessional financing terms could jeopardize the positive effects or the intended benefits of debt relief provided in recent years.

The growth in the volume of resources from traditional and emerging bilateral donors, private foundations and corporate donors over recent years has been accompanied by a growing number of aid channels. According to a list of agencies compiled by the World Bank, over 236 multilateral agencies and special funds operate in developing countries: at least 85 percent of them are located in Africa, where they outnumber donors and recipient countries combined. In 2005–2007, an average of 26 DAC bilateral and multilateral donors were active in each low-income African country surveyed. Of these 26, only 9 provided 90% of country programmable aid.⁴

Within this new proliferation of donors, many finance several small projects rather than a lesser number of larger ones (a phenomenon known as fragmentation). According to the OECD's calculations, 85 percent of the 60,000 donor-funded projects under implementation in developing countries in 2005 were valued at less than US\$ 1 million each.⁵

This donor proliferation and fragmentation of aid imposes significant transaction costs and aid management challenges for recipient countries and donors alike, particularly with regard to the quality, effectiveness and predictability of development aid.

In an attempt to address these challenges, a number of far-reaching initiatives have taken place. In 2002, the Monterrey Consensus produced the first comprehensive roadmap for development financing, focusing not only on traditional foreign aid flows (ODA) but also on broader financing approaches that consider developing countries' needs and capacities and foster opportunities for economic growth.⁶

Since Monterrey, several measures have been taken at the highest levels of donor and partner country leadership to deepen commitments to address systemic challenges in global economic and aid systems. Measurable targets to improve aid effectiveness have been adopted and reaffirmed (the Rome High Level Forum on Harmonization in 2003, the Paris and Accra High Level Forums on Aid Effectiveness in 2005 and 2008), and multilateral development financiers have committed to measuring and accounting for the impacts of their assistance (Marrakech Roundtable on Managing for Development Results in 2004).

So while implementation challenges persist, donors' and partners' political commitments to adopt common frameworks and streamline processes have signaled a move in the right direction and are providing a much-needed impetus for shaping a more coherent aid architecture. The African Development Fund has positioned itself as a key player in the global effort to improve development financing and aid effectiveness.



The African Development Fund: Africa's Voice and Financier

Grounded in its African ownership, its elected African president and its predominantly African staff, the African Development Bank Group has a unique role and legitimacy on the continent, but historically had remained small compared to other donors. To increase its relevance and respond to the challenges raised by the changing aid architecture, ADB president Donald Kaberuka (in office since 2006) has led the ADB Group in a major repositioning and institutional capacity-building exercise designed to position the Bank as Africa's lead development finance institution in strategic priority areas, its voice in domestic and international fora and its preferred knowledge institution.

For the ADF, the greater strategic selectivity and enhanced roles were agreed with ADF donors in late 2007: ADF interventions would focus on three key sectors: infrastructure, governance and regional integration. The ADF would also enhance its engagement in fragile states and strengthen synergies with the private sector. This new strategy was subsequently endorsed by the Bank's shareholders as the Bank Group Medium-Term Strategy for 2008–2012.

With average net annual ODA disbursements increasing from US\$ 295 million in 1981–1983 to US\$ 1.2 billion in 2005–2007, ADF is Africa's ninth largest donor overall over the period. In most countries, ADF's average ODA commitments ranged between 3 and 10 percent of all donors' ODA commitments to that country over the same period. With the dramatic increase of ADF disbursements to US\$ 1.8 billion in 2008 and an even higher increase in commitments to US\$ 2.8 billion in 2008, ADF's share of total ODA is rapidly growing.⁷

Africa's Lead Donor in Infrastructure, Governance and Regional Integration

Over the past 40 years, the ADF's strategic and sector focus has shifted from agriculture and social sectors to infrastructure, governance and regional

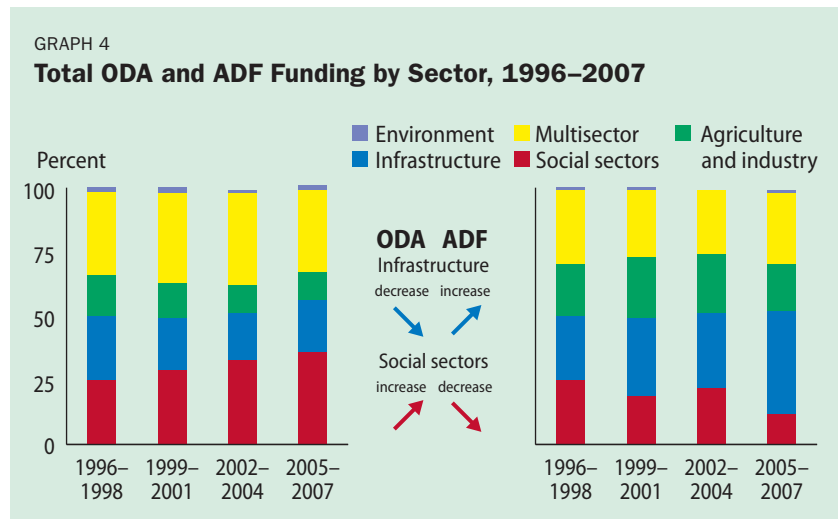
integration, areas that are either relatively under-funded and/or are where the Fund's resources add the most value.

The key trend shown by graph 4 is the decrease in total ODA to infrastructure from 25 percent to 20 percent over the 1996–2007 period, against an increase in total ODA to social sectors from 25 percent to 36 percent over the same period. During the same time, the Fund decreased its ODA to social sectors from 25 percent to 12 percent and increased its ODA to infrastructure from 25 percent to 40 percent.

The second trend shown by this graph is the decrease in total ODA to agriculture from 16 percent to 11 percent over the 1996–2007 period, while ADF ODA (not taking into consideration rural infrastructure) increased from 20 percent to 24 percent in the period 1996–2001 to fill the growing financing gap in this area, before decreasing to 18 percent in 2002–2007 (when support to agriculture had started to shift to support rural infrastructure). This shows the continued importance of agriculture in ADF's portfolio in the past 10 years, despite the recent shift in priorities.

According to recent OECD analyses, the Bank now is active in significantly fewer sectors by country (3.5 sectors on average)—i.e., the Bank is significantly more selective—than are other donors. As a result, it has systematically positioned itself as one of the top country-level players in its areas of intervention.⁸

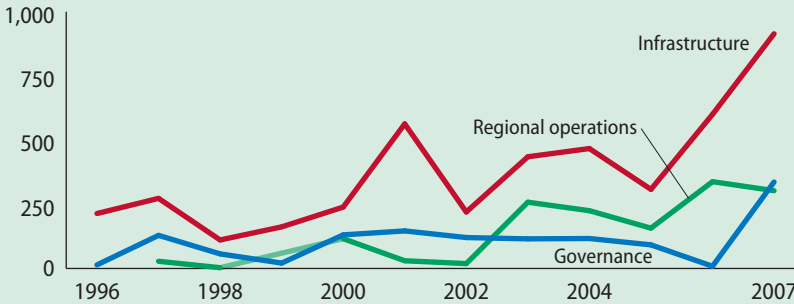
Infrastructure is the Fund's largest area of intervention since 1999 (graph 5). The Fund's assistance for this sector represented 13 percent of total ODA from all donors to ADF countries over the 2005–2007 period, and its commitments to infrastructure in 2008 alone amounted to US\$ 1,173 million. Infrastructure operations approved in 2008 have focused on transport (developing regional corridors, supporting trunk and rural roads and investing in urban programs), energy (investing in power generation, transmission



GRAPH 5

ADF Commitments to Governance, Infrastructure and Regional Operations, 1995–2007

US\$ millions in 2007 constant prices



Source: ADB using OECD-DAC CRS online database.

and distribution lines, power pools and clean energy schemes), water and sanitation and information and communications technology (promoting interconnectivity).

Support for governance projects (multisector) is the ADF's second largest area of intervention. In 2008, infrastructure and governance projects accounted for 83.3 percent of all ADF approvals. Since 2008, operations in governance have been guided by a new Governance Strategic Directions and Action Plan (2008–2012), which focuses on transparency and accountability in the management of public resources through enhanced support for economic governance and public financial management. The strategy is being implemented at three levels: (i) improving core governance systems and institutions at the country level; (ii) mainstreaming and strengthening governance at the sector level; and (iii) promoting regional integration and harmonization in governance. Most lending activities are concentrated at the country level and are complemented by policy dialogue and advisory and analytical work. The other two levels of intervention consist mainly of multinational operations, special initiatives and nonlending activities.

Regional integration, another of the ADF's strategic priorities, is also one of its constitutional *raison d'être*.⁹ The Fund is Africa's lead donor for regional integration and regional public goods financing and accounts for up to 21 percent of all ODA commitments to regional operations (operations involving at least two countries or operations in support of a regional or sub-regional institution) made since 2003 (graph 6). As a result of its commitment, the Fund has developed unique expertise in complex cross-border transactions and associated institutional and capacity-building measures.

For the 2008–2010 period, the ADF scaled up its support by setting 17.5 percent (or US\$ 1.6 billion) of ADF resources aside for regional operations.

BOX 1

Road Infrastructure in Senegal: Leveraging the Potential of Public-Private Partnerships

A US\$ 72 million loan to the Dakar-Diamniadio Toll Road project was approved by the ADF Board of Directors in July 2009. It is the first toll road to be constructed as a public-private partnership in Senegal. An innovative means to complement limited government resources with private investments, the public-private collaboration will construct 32 km of motorway between Dakar and Dianmiadio, operating 20 km under a 30-year concession. A component of the West African Dakar-Bamako-Ouagadougou-Niamey Road, the highway will act as a major

infrastructure link for the integration of Dakar and its port to the region and provide a vital artery for the decongestion and the economic development of the Dakar area. Concurrent with the construction of the motorway, 165 hectares of housing facilities, public utilities, and social, cultural and commercial facilities will be developed to accommodate up to 30,000 resettled people. The urban areas along the highway will be fully restructured to provide modern, safe and decent living conditions to dwellers who until then occupied the area informally, and a 40-year-old uncontrolled dump site will be replaced by an alternative facility that uses modern techniques for the removal and monitoring of urban waste. These collateral projects are financed by other donors and the Senegalese Government.

BOX 2

Public Financial Management Reform in Liberia: Strengthening Financial Governance in a Fragile State

Recognizing Liberia's strong performance in reconstructing the country and building its institutions since the end of the civil war, the ADF led donors' re-engagement in the country by approving a first budget support operation in December 2008. The overarching purpose of this operation, the **Public Financial Management Reform Support Programme I**, is to support the country's public financial management reform program and the modernization of its revenue administration. The operation is financed by a US\$ 14.5 million grant from the ADF Fragile States Facility and a US\$ 4.8 million African Food Crisis Response grant. In May 2009, the operation was supplemented by a US\$ 5.5 million Fragile States Facility grant to help authorities respond to the fiscal impact of the global economic crisis.

The budget support operation is part of a broader set of interventions by the ADF in the area of governance in Liberia. It complements the Institutional Support Project for Governance, Economic Management, and Poverty Reduction (US\$ 4.8 million approved in October 2006), which through training and technical assistance has strengthened core agencies' capacity to formulate policy, collect

revenues and execute a budget. In addition, a small grant to the Liberia Extractive Industries Transparency Initiative supports transparency in extractive industries revenues, especially in the forestry sector. Liberia has since become the first African country and the second country in the world to complete the Extractive Industries Transparency Initiative validation exercise.

As a result of the Fund's operations, the Ministry of Finance has linked its current budget to a new medium-term fiscal framework that allows better revenue planning and other fiscal measures. In addition to strengthening the government's public procurement and audit functions, the grant has helped to generate domestic revenues by creating a one-stop customs service facility. It contributed to a revision of the 2005 Public Procurement and Concessions Act that is harmonized with petroleum and mining laws and is now before Cabinet and assisted the General Audit Commission in submitting audits of five key ministries to Parliament before June 2009 (a requirement for the Heavily Indebted Poor Country (HIPC) completion point). The Fund is also supporting the further codification of budget operations that will allow the country to transition to an integrated financial management information system. Better codification will help raise the government's budget system to internationally accepted standards.

BOX 3

Regional Operations in the Transport Sector: Reducing Poverty through Greater Integration

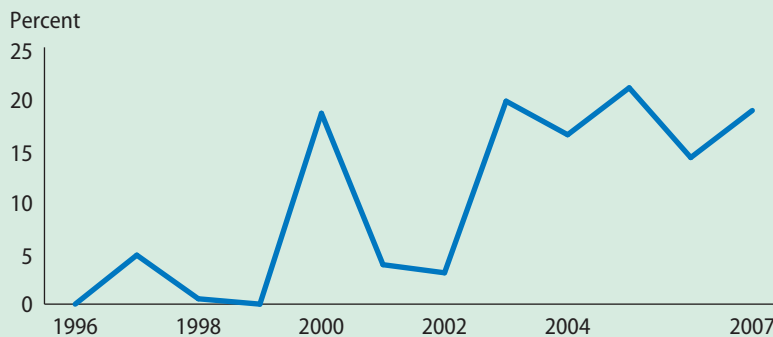
The ADF's **Mombasa-Nairobi Addis Ababa Road Corridor Phase II** project, approved in July 2009 for US\$ 338 million out of a total cost of US\$ 529.3 million, supports a vital section of Trans-African Highway 4 from Cairo to Cape Town and is a prime example of the ADF's role in supporting regional integration, infrastructure development and trade capacity building.

The project involves the construction to bitumen standard of 438 km of road sections consisting of a 245 km Merille River-Marsabit-Turbi section in Kenya and a 193 km Ageremariam-Yabelo-Mega section in Ethiopia. Cofinanced by the ADF (64 percent), the European Union (23 percent) and the

Governments of Ethiopia and Kenya (13 percent), the project aims to promote trade and regional integration between Ethiopia and Kenya by improving transport communications between the two countries. The project is expected to reduce transport and shipping costs between Kenya and Ethiopia; reduce transit times for imported and exported goods; and increase the volume of Ethiopian transit goods through the port of Mombasa. The development of the corridor will expand market sizes beyond national boundaries and foster a conducive and enabling environment for the private sector and foreign direct investment. The project will also help to reduce poverty in both countries by increasing access to markets and social services for residents of the surrounding areas and communities and by empowering women and other disadvantaged groups through appropriate roadside socioeconomic infrastructure and services.

GRAPH 6

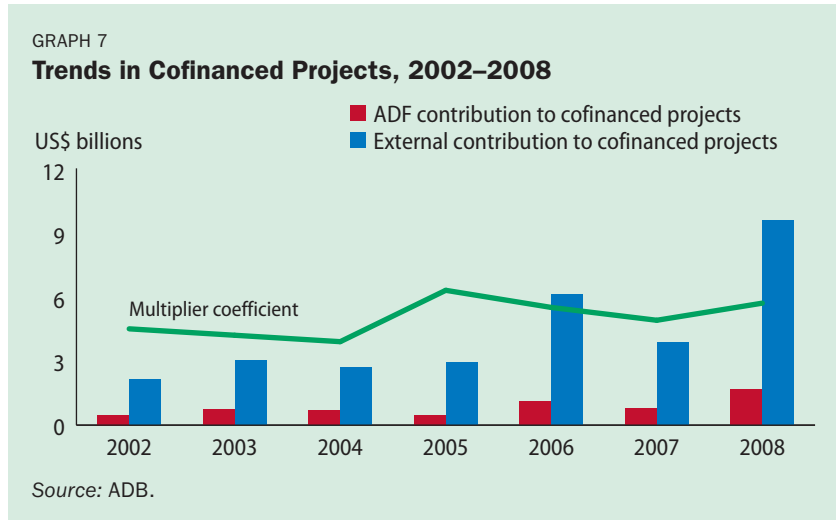
ADF's Share of Total ODA for Regional Operations, 1995–2007



Source: ADB using OECD-DAC CRS online database.

Financing for regional operations from this set-aside and from the general pool of resources is thus expected to reach approximately US\$ 2.2 billion during 2008–2010, i.e., more than the total financing for the previous 12 years (US\$ 1.4 billion).

The ADF's leading position in infrastructure and regional operations and its unique role on the continent have made it a catalyst for mobilizing public and private investments for development projects that require large initial investments and complex coordination mechanisms. In this way, the ADF helps to fill huge financing gaps in infrastructure investments. Since 2002,



approximately US\$ 6 billion of ADF financing has been matched by over US\$ 29 billion from cofinanciers. On average, the ADF has leveraged US\$ 5 for every US\$ 1 it has invested in cofinanced projects (graph 7).

An Innovative Supporter of Africa's Fragile States

Fragile and post-conflict states present a particular challenge in Africa. They require intensive dialogue, country knowledge, presence on the ground and strong relationships built on mutual confidence and trust.

The Bank Group has played a pioneering role in designing and introducing innovative new instruments to support Africa's fragile states. In 2004 the Bank created an arrears clearance mechanism under its Post-Conflict Countries Facility. This mechanism has proven a key innovation within the donor community for accelerating re-engagement with post-conflict countries and engaging other donors and post-conflict countries in a joint framework. In 2008, the Fund stepped up its support to fragile states with the creation of the Fragile States Facility (FSF), whose resources represent 7.5 percent (US\$ 657 million) of the Fund's allocable resources in the 2008–2010 funding period. Beside arrears clearance grants, the FSF provides eligible fragile states with resources that approximately triple their regular country performance-based allocation. In 2008–2010, nine post-conflict and transitional countries are eligible for financing from this window: Burundi, Central African Republic, Comoros, the Democratic Republic of the Congo, Côte d'Ivoire, Guinea-Bissau, Liberia, Sierra Leone and Togo. The FSF also provides targeted support for capacity building to help a wider set of fragile states jump-start their reconstruction efforts.¹⁰

Another key Bank Group innovation in support of fragile states was the establishment in 2009 of the African Legal Support Facility, which finances legal support to ADF countries dealing with vulture funds—mostly in the

context of HIPC Initiative and MDRI debt relief—or negotiating complex transactions with commercial partners. The African Legal Support Facility has received considerable support and focus from both donor countries and beneficiary countries.

The Facilitator of Private Sector Activities

Private sector development is one of the key strategies pursued by ADF countries to spur economic growth and achieve sustainable development. The ADF's core operational priorities create important synergy in this regard. By investing in infrastructure and regional integration, by supporting the macro-economic, regulatory and financial sector governance of ADF countries and by advocating stronger anti-corruption frameworks and greater transparency, the Fund finances key pillars of an improved investment climate within ADF countries.

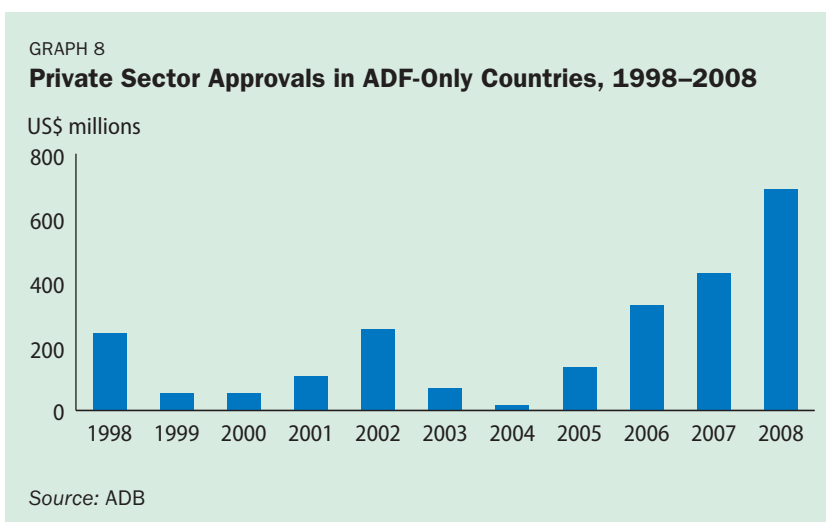
With regard to infrastructure, combined ADB-ADF operations are being developed in the areas of power, transportation (see box 1 on road infrastructure in Senegal), telecommunications and water. Similarly, public-private partnerships in agriculture are being developed and linked to financial sector initiatives to promote small and medium enterprise. In addition, the private sector is drawing on the Bank-hosted Fund for African Private Sector Assistance and other facilities to fund critical preparatory work such as the hydropower projects development initiative of the Organization for the Development of the Gambia River Basin. The ADF is also working on a guarantee proposal to further increase private sector infrastructure investments in ADF countries.

Direct support to private sector operations in ADF countries is provided by the ADB through operations that target a specific country or through multinational operations and support for equity funds with an exclusive or partial focus on ADF countries. As part of its strategy update for private sector operations,¹¹ the ADB now balances new financing operations between middle and low-income countries at 40 percent each, with the remaining 20 percent going to multinational operations. In 2008, the ADB exceeded this target by approving 42 percent (US\$ 689 million) of new private sector financing in ADF countries (graph 8).

In 2008, the share of all the Bank's private sector operations (both newly and previously approved), including multinational operations, located in ADF countries was around 55 percent (US\$ 918 million). This percentage increased to about 60 in the first semester of 2009 and is expected to be maintained or slightly exceeded throughout the year.

The Continent's Resource Mobilization Platform

The ADF and more generally the ADB Group plays an important role in mobilizing resources for the continent. The ADB Group was among the first



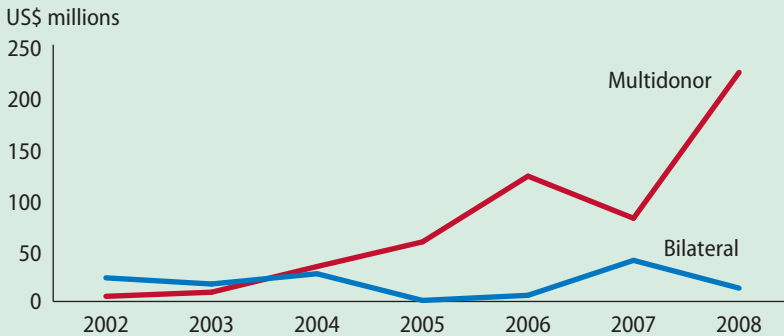
multilateral creditors to participate in the HIPC Initiative and the MDRI and has so far mobilized over US\$ 10.8 billion in debt relief and debt cancellations under the two initiatives. The increasing popularity of the social entrepreneurship and public-private partnership models of development assistance among newly emerging private donors has also created opportunities for the ADB Group to enhance its engagement with private donors, promote donor harmonization and leverage additional resources. The ADB mobilized more than ten times as many trust fund resources in 2008 as in 2002 (graph 9).

At the bilateral level, the ADB manages more than 20 trust funds from 20 countries. These funds provide critical resources for upstream project cycle activities in ADF countries, such as analysis, pre-feasibility studies and capacity building, essentially in water and sanitation, agriculture and governance. With its 2006 Technical Cooperation Fund Reform Policy, the Bank increased trust fund management effectiveness and efficiency by simplifying approval processes and procedures and aligning its policies and processes with those of other multilateral development banks. All new trust fund resources have been untied since January 2007, allowing the ADB greater flexibility and efficiency in their use.

At the multilateral level, the ADB Group has key mandates from donors in the water and sanitation sector in the form of four large thematic trust funds totaling US\$ 288 million which benefit mostly ADF countries (box 4).

Another good illustration of the ADB Group convening and resource mobilizing function in a very complex regional institutional environment is the key role it played in the 2008 creation of the Congo Basin River Fund (CBFF). Launched with initial contributions of US\$ 200 million from Norway and the United Kingdom, the CBFF slows deforestation by building capacity in local populations and institutions in the Congo Basin and by helping local communities develop lifestyles that will preserve Congo Basin

GRAPH 9

ADB Trust Fund Resource Mobilization Trends, 2002–2008

Source: ADB.

BOX 4

Initiatives in Water Supply and Sanitation

With trust fund, donor resources and ADB contributions of US\$ 2.2 billion, the **Rural Water Supply and Sanitation Initiative (RWSSI)** is the ADB's most important initiative for addressing water supply and sanitation-related Millennium Development Goals. Under the RWSSI, the ADB Group aims to help RMCs achieve 80 percent rural water and sanitation coverage, give 277 million people access to clean water and provide 295 million people with proper sanitation facilities by 2015, mostly in ADF countries. The projected cost of these activities is US\$ 22.9 billion. The ADB Group is committed to contributing 30 percent of project costs and raising 50 percent from donors and 20 percent from RMC governments and

communities. So far, the ADB Group has contributed US\$ 911 million.

With commitments of US\$ 177 million since its inception in 2005, the **African Water Facility (AWF)** is a fast-track facility hosted and managed by the ADB that finances smaller upstream projects with the aim of catalyzing additional funding. AWF projects focus on strengthening the enabling environment of the sector through policy, strategy and program development, capacity building, national and transboundary water resources management and bankable project development. The AWF has financed 26 projects so far, for a total of US\$ 30.6 million.

Finally, the **NEPAD Water and Sanitation Programme (NEPAD WSP)** supports transboundary water resources management, and the **Water Partnership Program (WPP)** builds Bank and RMC capacity for integrated water resources management.

forests. The CBFF works closely with Central Africa countries, the COMIFAC Executive Secretariat, the Congo Basin Forest Partnership, donor agencies, civil society, NGOs and the private sector. The ADB Group hosts the CBFF at the Bank Group Temporary Relocation Agency in Tunis and CBFF staff operate from ADB Field Offices in Cameroon and the Democratic Republic of Congo. In March 2009, the ADF's Board of Directors approved a US\$ 46.95 million grant to finance the Congo Basin's Ecosystems Conservation Support Programme.

Insofar as trust funds for governance are concerned, Denmark, Finland, Norway and Sweden established the Nordic Trust Fund on Governance (NTFG) within the Bank in 2002. The NTFG has since financed over 38

governance programs consistent within the Bank's overarching objective of poverty reduction.

A Convener of Multi-level Partnerships

The Bank's geographic reach and strategic orientation also make it the partner of choice for a broad range of special African mandates relevant to ADF countries. In addition to its regular collaboration with the African Union and the United Nations Economic Commission for Africa on all major development issues pertinent to the continent, the Bank Group has lead mandates with regard to governance and regional issues, infrastructure projects, and private sector development, in initiatives launched by the Bank Group or entrusted to it by donors (box 5).

Africa's Voice and Knowledge Platform on Development Issues

The ADB's African ownership, its growing on-the-ground presence and its fast-expanding knowledge activities have led it to strengthen its role as Africa's leading voice on regional issues and as the representative of African countries in international fora. For example, the ADB coordinated the position of African countries in preparation for the 2008 Accra High Level Forum on Aid Effectiveness. This forum led to the Accra Agenda for Action, a set of commitments to improving aid by publicizing the conditions linked to disbursements, by providing full and timely information on annual commitments and actual disbursements and by increasing the use of country financial management systems to implement donor-financed programs.

The ADB also took the lead in coordinating Africa's responses to the global financial and economic crisis, working closely with other pan-African institutions such as the African Union Commission and the United Nations Economic Commission for Africa. In response to the crisis, the ADB hosted a meeting of African Ministers of Finance and Central Bank Governors in Tunis in November 2008, which gave rise to the creation of the Committee of Ten Ministers of Finance and Central Bank Governors (the C-10) mandated to monitor the crisis and coordinate Africa's response at various levels. The C-10 has since met in Cape Town in January 2009, in Dar Es Salaam in March 2009 and in Abuja in July 2009. The C-10 meetings in Cape Town and Dar Es Salaam provided valuable inputs into defining Africa's position at the G-20 Summit in April 2009 in London, and the Abuja meeting was a platform for preparing for the September summit in Pittsburgh.

Aiming to become the continent's premier knowledge platform, the ADB has engaged in a large-scale knowledge management program focused on conducting high quality research to better understand the development challenges facing the continent and leveraging resources and partnerships to support knowledge generation, dissemination and utilization in ADB policies and programs. Besides its Data Platform, which provides easy online access

BOX 5

Selected Partnerships and Initiatives

The **NEPAD Infrastructure Project Preparation Facility**, which is hosted and managed by the Bank, was established in 2003 with seed funding from the Canadian Government and was later transformed into a multidonor facility with further contributions from Denmark, Germany, Norway and the United Kingdom Department for International Development. The facility's key objective is to grant the resources necessary to assist African countries, regional economic communities, specialized agencies and related institutions in preparing high quality and viable regional/continental infrastructure projects and promoting infrastructure projects and programs with a view to furthering regional integration and trade

The **Infrastructure Consortium for Africa** is a tripartite initiative between bilateral donors, multilateral institutions and African institutions. The consortium seeks to enhance co-operation between its members in the promotion and preparation of national and regional infrastructure projects and programs and the mobilization of resources for infrastructure investments. The Bank Group hosts the Consortium Secretariat.

The Enhanced Private Sector Assistance (EPSA) Initiative is a multi-component, multidonor platform for mobilizing resources and developing partnerships to support the implementation of the ADB's strategy for private sector development. Drawing on successful development experiences in Asia and around the globe, EPSA was conceived in partnership with the Government of Japan, which will provide US\$ 1 billion in support over 5 years. In addition, the Government of Japan will contribute

grant resources to the Fund for African Private Sector Assistance (FAPA).

The **Investment Climate Facility for Africa** was launched in 2006 to boost growth and investment in Africa by making Africa "a better place to do business." This facility is a public-private partnership that collaborates with African governments, regional organizations, donors, NGOs and international and domestic corporations to improve Africa's investment climate at the national, regional and continental levels. The ADB is an active participant and financial contributor and administers the facility's financial resources.

The **African Peer Review Mechanism** was launched by the African Union to ensure that the policies and practices of participating states conform to the political and corporate governance values, codes and standards contained in the Declaration on Democracy, Political, Economic, and Corporate Governance. The ADB is the mechanism's lead agency for corporate governance, including banking and financial standards.

The **Extractive Industry Transparency Initiative**: Within the framework of the World Summit on Sustainable Development and the task forces on extractive industries set by multilateral and bilateral partners (the World Bank and the United Kingdom), the ADB will play an innovative role in the nexus between fragile states and the extractive industries, including supporting the implementation of all initiative activities in member countries.

The **African Fertilizer Financing Mechanism** will increase access to rural fertilizer procurement and distribution facilities; provide credit guarantees for fertilizer importers/distributors and develop African fertilizer production capacity. The ADB has been given the mandate to lead and host this facility.

to a wide range of development data on RMCs, the ADB produces several flagship publications, such as African Economic Outlook, African Development Report, African Competitiveness Report and African Development Review. It will launch in 2010 a new African Governance Outlook.

In addition, the ADB Group plays a key role in capacity building for RMC government officials through its training programs on policy processes, macroeconomic management and development effectiveness. The ADB also plays a leading role in building up the statistical capacity of its RMCs for Millennium Development Goal monitoring and results measurement. Results measurement has been mainstreamed into the ADB's own operations

through institutional support activities and the integration of statistical data-generating activities into the ADB's country programming (its Results-Based Country Strategy Papers), its project cycle and its policy-based lending.

A Key Partner in the Midst of Crisis

The ADB Group has been at the forefront of coordinating efforts and mobilizing resources to respond quickly and effectively to emerging crises that affect the continent. This was particularly the case in 2008 and 2009 with the food and financial crises. Showing its flexibility, the ADB Group adapted its country pipelines rapidly to changing needs, shifted resources to different sectors and instruments and developed new instruments and facilities to help ADF countries mitigate the effects of the crises.

In July 2008, the ADB Group created the Africa Food Crisis Response (AFCR) initiative to furnish accelerated support to RMCs affected by high food prices. The AFCR was designed to supply approximately US\$ 2.3 billion in the medium and long terms and US\$ 800 million in the short term. AFCR's goal is to reduce the vulnerability of populations in affected RMCs to high and unstable food prices and to boost sustainable agricultural growth and food security over the medium and long terms. Encouraging results were documented in the preliminary impact assessment conducted for six countries that were among the first recipients of AFCR resources. These countries scaled up their agricultural activities and benefited from an increase in the production of cereals.¹²

To help low-income countries overcome the effect of the 2008–2009 financial crisis, the ADF played a countercyclical role by restructuring existing portfolios and pipelines, reallocating unused resources, fast tracking large infrastructure operations, which act as fiscal stimulus in times of crisis, and increasing the proportion of assistance it provides through fast-disbursing instruments such as budget support. As a result of these measures, the ADF experienced a very sharp increase in its commitment and disbursement rates in 2008 and 2009, which led to the quasi exhaustion of the ADF-11 resources a year before the expiration of the replenishment cycle. The Fund also introduced a framework for the accelerated reallocation of cancelled resources to ADF countries, expected to free up to US\$ 805 million.

In addition, the ADB Group introduced a US\$ 1.5 billion Emergency Liquidity Facility designed to provide short-term resources to clients facing unexpected needs resulting from the financial crisis. The Bank Group also allocated US\$ 1 billion to the Trade Finance Initiative with the aim of introducing a new trade financing line of credit to commercial banks and financial institutions affected by the sudden shortage of capital for trade financing.

Conclusion

Dramatic changes in the nature of development assistance in past years have created unique challenges and opportunities for African low-income countries and the development community as a whole. The ADF has reacted to these changes by repositioning itself as Africa's lead donor in infrastructure, governance, regional integration and support to fragile states. It is also becoming the main advocate and convening power of the continent and has proven itself a responsive and flexible partner that helps low-income countries address the consequences of external shocks and crises.

Following the implementation of an unprecedented set of institutional reforms, the ADF has also dramatically increased its delivery capacity and results focus, positioning itself amongst the highest ranked donors for institutional effectiveness. The results of these endeavors are already evident. Commitments and disbursements doubled between 2005–2007 and 2008–2010 while the quality at entry and performance of operations has increased steadily.

As reforms become more firmly engrained, the Fund's growing delivery capacity and performance will continue to streamline the institution into an ever more effective channel of resources and catalyst of development in African low-income countries. The ADF of the 21st century is a strong, selective and focused institution that will achieve new landmarks in its mission to promote economic development and social progress in African low-income countries.

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Notes

1. For a RMC to qualify as an ADF country, its 2008 per capita gross national income could not exceed US\$ 1,135.
2. MDG Africa Steering Group. 2008. Achieving the Millennium Development Goals in Africa: Recommendations of the MDG Africa Steering Group. Available at www.mdgafrica.org/pdf/MDG%20Africa%20teering%20Group%20Recommendations%20-%20English%20-%20HighRes.pdf (accessed November 27, 2009).
3. The Africa Infrastructure Country Diagnostic study estimated Africa's infrastructure needs at US\$ 75.5 billion per year for the next 10 years, including capital expenditures (US\$ 38.1 billion) and operations and maintenance (US\$ 37.4 billion). Out of this amount, US\$ 35 billion corresponds to the financing gap. Africa Infrastructure Country Diagnostic. September 2008. *Overhauling the Engine of Growth: Infrastructure in Africa*.
4. OECD Development Assistance Committee. 2008. Scaling Up: Aid Fragmentation, Aid Allocation and Aid Predictability. Report of 2008 Survey of Aid Allocation Policies and Indicative Forward-Spending Plans. Available at www.oecd.org/dataoecd/37/20/40636926.pdf (accessed November 27, 2009).
5. Comment Piece by Johnston, D., and Richard, M. February/March 2005. *Doing Aid Better*. OECD.
6. Five pillars of development financing underpin the Monterrey Consensus: mobilizing domestic resources; attracting international flows; promoting international trade as an engine for development; espousing sustainable debt financing and external debt relief; and enhancing the coherence and consistency of the international monetary, financial and trading systems.
7. All data about ADF operations that are not quoted from the OECD CRS database have been converted from the fund Unit of Account (UA) (which is equal to the IMF Special Drawing Rights) to current US\$ using the December 2009 exchange rate of 1 UA = 1.61 US\$.

8. During the 2005–2007 period, the Bank was among the top donors in its sectors of intervention at the country level in 90 percent of cases. See OECD-DAC. 2008. *Scaling Up: Aid Fragmentation, Aid Allocation and Aid Predictability*. Report of 2008 Survey of Aid Allocation Policies and Indicative Forward-Spending Plans. OECD.
9. See Article 2 of the Agreement Establishing the African Development Fund.
10. The additional states consist of Chad, Congo, Djibouti, Eritrea, Guinea, Somalia, Sudan and Zimbabwe.
11. African Development Bank. November 2007. *Strategy Update for the Bank's Private Sector Operations*, document ADB/BD/WP/2007/149.
12. See African Development Bank. April 2009. *Information Update on Bank Group Response to Africa Food Crisis, Revised Version*.

