

## African Development Bank Group

### African Development Fund (AfDF)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$105,152,000	\$135,700,000	\$0	\$135,700,000

For FY2006, the Administration requests \$135.7 million for the African Development Fund (AfDF) for the first of three annual U.S. payments under the recently concluded tenth replenishment of the AfDF (AfDF-10). In December 2004, donor countries including the United States reached agreement on AfDF-10 that will cover operations over calendar years 2005, 2006, and 2007. As part of the \$5.4 billion total replenishment, the U.S. commitment over three years under AfDF-10 is \$407 million. This is in addition to the \$15 million in previously appropriated funds for Liberia's arrears clearance with the AfDB. Treasury will be closely working with the AfDF to ensure that the performance and other reform commitments agreed to in the replenishment negotiations are implemented in a timely and effective manner. Key U.S. broad policy objectives agreed to in AfDF-10 include:

- Grants are expected to total approximately 45% of AfDF total assistance, because debt sustainability will now be the determinant of a country's financing terms;
- Enhanced AfDF development effectiveness with measurable results on the ground;
- Improved focus on support for private sector development;
- Capacity to assist post-conflict countries in clearing arrears to the AfDB group; and
- Expanded information disclosure of the Bank's activities and policies.

Poverty reduction through economic growth is the overriding objective of the AfDF. In Africa, over the last two decades, both income and non-income measures of poverty have deteriorated. Today, social indicators such as infant mortality, life expectancy, primary school enrolment, adult literacy, and maternal mortality are some of the worst in the world. Furthermore, compared to other regions of the world, the level of income inequality in Africa is high.

One of the AfDF's strengths lies in understanding local conditions. In recent years, and at strong urging from the U.S., the AfDF has sharpened its focus on areas where it can make a contribution to poverty reduction in Africa. The AfDF's operational priorities include: agriculture and rural development; human capital development, especially basic health care and primary education; private sector development; governance; gender; the environment; and economic integration and co-operation.

#### **Key Facts**

- Since its establishment in 1973, AfDF has approved a total of \$21.2 billion for loans, grants, and debt relief.

- The U.S. is the second-largest historical contributor to the Fund (after Japan), having paid 12% of the total cumulative contributions as of end September 2004.
- In 2004, the AfDF approved loans, grants and HIPC debt relief totalling \$1.8 billion. This is over a 25% increase from 2003, largely due to five countries' reaching their HIPC completion points.
- During 2004, 27% of AfDF lending was for agriculture and rural development projects, 17% for social sector operations (education and health), and 7% for water supply and sanitation. Thus, lending to these critical sectors constituted 51% of the AfDF's total lending.

### **Supporting U.S. Objectives**

Negotiations on the tenth replenishment of the AfDF concluded in December 2004. The size of the replenishment is approximately \$5.4 billion, out of which the U.S. contribution is \$407 million over three years – a 15% increase compared to the U.S. contribution in the previous replenishment. The \$407 million is in addition to the previously appropriated (in P.L. 108-106) \$15 million to assist Liberia in its efforts to clear its arrears to the AfDB. The United States played an important role in these negotiations by focusing the AfDF's agenda, defining its comparative advantage, and advocating reforms to improve the Fund's development effectiveness. Importantly, the United States again exercised leadership on grant financing by securing an agreement to use a debt sustainability framework to determine whether a recipient country would receive grants or loans, which should greatly increase the portion of AfDF funds extended in grant form.

In addition, the United States and other donors secured management's commitment for increased focus on operational effectiveness, which would promote growth and poverty reduction in African countries. Donors urged the AfDF to continue to take a leadership role on good governance, but also to enhance its efforts to support private sector development. Finally, the U.S. and others affirmed the critical need for measurable indicators in monitoring and evaluating the AfDF's operations in each sector.

#### *Increased Grants Under AfDF-9 and AfDF-10*

- The AfDF-9 agreement called for grants to be an increasingly large component of the AfDF's interventions – from 7.5% in AfDF-8 to 18-21% in AfDF-9. They are aimed to assist the poorest and debt-vulnerable Regional Member Countries (RMCs) through strengthening the AfDF's interventions in the fight against HIV/AIDS, post-conflict reconstruction, natural disaster reconstruction, and investments in education, health, and rural water and sanitation services.
- Grant commitments for 2004 – the last year of the AfDF-9 period – were \$331 million and accounted for 17.2 % of AfDF approvals, a 25 % increase over the prior year.
- As a result, over the nearly three-year period of AfDF-9, total grant approvals aggregated to about \$670 million and utilized nearly 19% of total AfDF-9 resources.

- Looking forward to 2005, grants will become an even greater portion of the AfDF's interventions, as the very recently concluded AfDF-10 called for grants to be extended according to the recipient countries' debt sustainability.
- Early projections are that the portion of AfDF grant financing will increase from over 19% in AfDF-9 to about 45% during AfDF-10.

### *Measuring Results*

- The United States has been a strong and consistent advocate for implementation of results-based management in the MDBs, including the AfDB.
- After working closely with sister institutions, AfDF expects all its operations to contain results-based matrices summarizing the objectives of operation, the expected or targeted impacts and their timeframe, and the critical assumptions or risk factors to be monitored.
- Furthermore, a result of the AfDF-10 negotiations, every project and strategy coming to the Board of Directors will have a fully operational results-based management system by mid-2006. The Bank is already making final revisions to its annotated format for Results-Based Country Strategy Papers for Board consideration in early 2005.
- But already, measurable outcome indicators are found in most AfDB projects and are quantified and based on baseline data. For example:
  - Tanzania: The Madibira Smallholder Agricultural Development Project has aimed to increase household incomes, improve access to health services and increase school enrollment. Between 1998 and 2003, the project resulted in: improving from a 140 metric ton cereal deficit to a surplus zone capable of supplying other zones with 9,000 metric tons; 17 water wells and 5 boreholes now provide potable water to all of the area's inhabitants; the number of tractors increased from 4 to 15 and the number of owners of power tillers from none to 40; 8 new dispensaries and a new health clinic provide access to health services; and the number of owners of retail shops increased from 2 to 40.
  - Kenya: An AfDF grant of nearly \$10M for the Rural Health Project III is supporting Kenya's health sector aim to reduce the infant mortality rate by two-thirds by 2015, from 135 to 42 deaths per 1,000 live births, and to reduce the maternal mortality rate by three-quarters from 430 to 107 per 100,000 live births. To attain these goals, the project is expected to contribute to raising the rate of assisted childbirths from 55% now to at least 70% by 2010. The project will reinforce community-based disease prevention and control and provide critical training.

### *Performance-Based Allocations*

- As part of the AfDF-9 replenishment agreement, the AfDF has further refined its performance-based allocation framework by further differentiating between good and poor

performers in per capita allocation of AfDF resources, and is considering different approaches to giving greater weight to governance.

- Refinements to AfDF's CPA have now been implemented and they ensure that governance is given greater weighting in a country's overall rating; better performing countries with good governance receive a correspondingly larger share of resources; and post-conflict countries receive an additional allocation in support of their recovery.
- As a result of these changes, over the AfDF-9 period, countries in the top, middle, and lower quintiles obtained 5.0, 3.2 and 2.2 times more allocation per capita respectively than the countries in the lowest quintile, compared to allocations during the AfDF-8 period (1999-2001). The increased differentiation between good and bad performers is, to a large extent, due to the weight of the high governance factor for good performers, and the sharply reduced governance factor rating for bad performers.
- Besides the increased differentiation between good and bad performers, during the AfDF-9 cycle, six countries received an increase of about 35 %, on average, in addition to their respective basic allocations, reflecting the post conflict enhancement factor. The countries are: Angola, Burundi, Congo Republic, Democratic Republic of the Congo, Eritrea, and Sierra Leone.
- In the recent AfDF-10 agreement, the performance-based allocation system was again strongly supported. In addition, due to U.S. leadership, the Bank agreed to make the CPA's individual country performance ratings and components fully transparent, aligning with IDA's practice which is expected in 2005.

#### *Fostering Private Sector Development*

- The AfDF has traditionally promoted private sector development through its policy-based lending, which includes encouraging elimination of trade barriers, liberalization of commodity prices, and restructuring/privatization of parastatals.
- As called for in the AfDF-9 replenishment agreement, the Bank Group approved a revised Private Sector Development Strategy in December 2004. As the U.S. had called for, the Bank will use Private Sector Country Profiles to draw up specific action plans and set clear results-based objectives.
- The Bank continues to provide technical support and financial resources to financial intermediaries, including local banks, for lending on market terms to SMEs. For example:
  - Kenya: The line of credit to CFC, a privately owned Kenya bank, will help promote the development of SMEs in Kenya through its support to local financial intermediaries. CFC has a long history of financing SMEs in Africa, and provision of the line of credit should facilitate access to longer term financing.

- In 2005, the AfDB aims to boost private sector lending back to 2003 levels, approximately \$385 million at current exchange rates.
- Over the past two years, the AfDB has also been developing an initiative to support women entrepreneurs in Africa. The AfDB has assessed the constraints women entrepreneurs often face – difficulty in securing collateral, for instance – and how policy-makers can work to improve the enabling environment for these entrepreneurs.

### *Promoting Good Governance*

- As part of the AfDF-9 agreement, donors urged the AfDB to significantly enhance its work on governance. In response, the AfDB approved new guidelines for policy-based loans aimed specifically at governance policy changes and reforms. Specifically, the guidelines provide information for consideration at each stage of the project cycle, and serve as a check list of actions required to assess governance risk and impact, required policy changes and recommended actions, and relevant indicators to measure progress.
- Over the last year and a half, the AfDB developed “Guidelines for Preventing and Combating Corruption in Bank Operations” and developed recommendations for (a) an Anti-Corruption and Fraud Unit and (b) the creation of an Oversight Committee for Corruption and Fraud and procedures for a “whistle blower” protection program. These recommendations are now before the Board for consideration in early 2005.
- Uganda: Institutional Support for Good Governance: In November, 2004, the AfDB approved this project, which is aimed at filling in acute institutional and skills gaps that the country faces, particularly in terms of decentralization and accountability. The project will help Uganda to strengthen its institutional framework for delegation of authority, transparency, and efficiency in monitoring and assessment by public institutions, as means to promoting good governance. It provides staff training and equipment in five key governance institutions, building expertise in novel areas of public governance to ensure sustainable, efficient, and cost-effective delivery of public services for the Ugandan population.

### *Increasing Transparency*

- In the recently concluded negotiations for AfDF-10, the U.S. secured commitments from the AfDB to seek Board approval to release an even greater number of documents prior to Board review. As a result, AfDB management will soon send a recommendation to the Board to make available to the public strategy and policy proposals, as well as project appraisals, 15 days prior to Board consideration, or whenever the Board itself receives the proposals.
- The Bank also committed to improve the accessibility and content of its web site ([www.afdb.org](http://www.afdb.org)).

## *Human Capital Formation*

- In line with the AfDF-9 replenishment guidelines, the proportion of AfDF resources going to the critical productivity-enhancing areas of human capital investment (education and health/HIV/AIDS) increased from 18% in AfDF-8 to 26% in AfDF-9.
- Examples of AfDF human capital investment programs approved in 2004 include:
  - DRC: Education Sector Support Project financed by an \$8M grant The project's objective is to support reconstruction of Congo's education system in order to attain the Education For All (EFA) objectives. The project will help carry out studies and support the introduction of a modern information system for education management, and facilitate critical sectoral reforms to enhance the sector's efficiency. In addition, the project will strengthen planning and management capacities through training for teachers, inspectors and managers at the preschool, primary and secondary level.
  - Eritrea: Support to the Education Sector Development Program. This project supports Eritrea in its effort to reach verifiable goals by 2015: (i) a 25% increase in the number of Eritreans in the labor force having completed basic education; (ii) an annual average of 60% of students in secondary schools passing the Secondary Education Certificate Examination; (iii) at least 40% of high school graduates proceeding to university and other tertiary institutions compared to 20% now; and (v) 40% of high school graduates finding employment compared to just 20% now. The program works toward these objectives through comprehensive secondary education, capacity building in the Ministry of Education, and teacher training and curriculum development.
  - Cape Verde: Education Sector Institutional Support Project. The goal of this project is to help increase the quality of integrated basic education by improving school management, teacher supervision, and the teacher qualification system.
  - Democratic Republic of Congo (DRC): Health Project I – Support to the Eastern Province. This project is designed to help the government of DRC to address a post-conflict situation and the extensive destruction of the health system that has resulted in an alarming deterioration of all health indicators since 1990. The project's goal is to address critical health needs for vulnerable groups in the Eastern Province. The project is working toward the following measurable goals by 2009: getting 90% of health zones fully operational; reducing maternal mortality rate from 1,837 per 1,000 live births to 900 per 1,000; reducing the infant mortality rate from 127 to 65 per 1,000; and reducing the child mortality rate from 213 to 100 per thousand. To attain these objectives, the project will strengthen community efforts, improve disease control, and provide capacity building at the Ministry of Health.
  - Mano River Basin Countries and Côte d'Ivoire: \$7.5M Grant to Support of a Sub-Regional Program for Refugees, Internally Displaced Population and Host Communities. The protracted conflicts in this region generated the significant internally displaced populations of the Mano River Union basin countries. The project's objective is to prevent the spread of new infections of STI/HIV/AIDS among refugees, internally

displaced populations, and their host communities in the Mano River Union Countries and Côte d'Ivoire and to provide support to those living with HIV/AIDS.

#### *Agriculture and Rural Development*

- In 2004, 22.4% of the AfDF's total loans and grants went to agriculture and rural development projects. And over the period of AfDF-9, agriculture and rural development comprised 25% of total AfDF financing, up slightly from 23% over the AfDF-8 period.
- The AfDF is going to help Uganda to modernize agriculture in order to raise rural incomes and improve food security. The Farm Income Enhancement and Forest Conservation Project approved in 2004 will work toward *inter alia* regenerating vegetation on 9,900 hectares of degraded watershed, installing 13,500 hectares of plantations, and constructing 16 kilometers of market access roads, in addition to training 7,000 farmers. The desired results from this project are to increase annual household incomes from raising vegetables to about \$610 and to generate incremental production of food staples: 2,590 metric tons of plantain, 750 metric tons of maize and 340 metric tons of rice in the project area.

#### *Regional Integration*

- Recognizing the need for regional economic cooperation and integration in Africa, Management agreed, as part of the AfDF-9 agreement, to develop improved staff capacity in this area and to establish a focal point in the AfDB to help coordinate the Fund's interventions.
- Ten percent of the AfDF-9 replenishment was allocated for financing multinational projects to promote regional economic cooperation and integration. And, as part of the recent AfDF-10 replenishment agreement, up to fifteen percent is expected to be set aside for such regional projects.

#### *Assistance to Post-Conflict Countries*

- Pursuant to the AfDF-9 replenishment agreement, the AfDB developed policy guidelines in 2004 to highlight the AfDB Group's comparative advantages in post-conflict reengagement, rebuilding social and economic infrastructure in the immediate and short term, and providing support for technical capacity building assistance and promotion of good governance over the medium to long term.
- Also in 2004, in response to strong U.S. leadership, the AfDB also established the new Post-Conflict Country Facility (PCCF). The facility gives the AfDB the capacity to help countries clear their arrears to the AfDB Group – in conjunction with sister IFIs - in order to regain access to its assistance in a more coherent and timely manner.
- The AfDB also undertook dialogue missions with countries in arrears and emerging from post-conflict situations, such as Burundi, Congo and Liberia.

- Congo benefited from the new PCCF in 2004. With the PCCF's assistance, Congo was able to clear its arrears to the AfDB Group and is once again eligible to receive financial support from the AfDB.

#### *Natural Disaster, Humanitarian Relief and Post-Conflict*

- The AfDF continues to support countries emerging from crisis and humanitarian disaster through offering emergency humanitarian relief and also support for reconstruction and rehabilitation. For example:
  - In September 2004, the Bank approved a grant of \$15 million to support the ECOWAS (Economic Community of West African States) Peace and Development project to contribute to the promotion of peace in ECOWAS's member countries. The specific objective of the project is to strengthen the institutional capacities of ECOWAS and civil society in countries affected by conflict and to achieve better coordination, management and implementation of conflict prevention measures in the context of good governance.
  - Also, within weeks of the tsunami disaster, in early 2005, the AfDF approved \$1.0 million to help rebuild critical ports and roadways in both Somalia and the Seychelles.

#### *Opportunities for US Businesses*

- In 2003, firms in the US won contracts totaling \$14.3M financed by the AfDB. This is more than a 50% increase from 2002.

#### *Program Assessment Rating Tool (PART)*

- OMB completed a PART examination of the AfDF in 2003. The Bank received high scores in Program Management and Program Purpose and Design, but lower scores in Strategic Planning and Program Results, which resulted in a total program score of 59%.